6 challenges

to rethink the operational model in 2022

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EXECUTIVE SUMMARY

Over the second half of 2020, LEF set out to understand how organizations were revisiting their operating models in the wake of COVID-19. The pandemic has provided a before- and after-mile post on the journey of transformation to the digital era that organizations have undertaken, if in most instances tepidly or reluctantly.

We undertook this research on Next Generation Operating Models (NGOM) with the goal of contributing something new to this domain. As any ten-second Internet search will attest, there is no shortage of opinion, fact, myths and misinformation on the topic of operating models available to you; Googler beware. Our goal was to identify the gaps in this prolific coverage, and to fill those gaps with the best available and most timely feedback from your peers who too are struggling with this very topic at this very moment. With this in mind, LEF interviewed dozens of CxOs across a wide range of industries and geographies to answer a compelling question: *Are you rethinking your existing operating model, and if so, why?* The results of this research may be surprising to some, expected by others, but likely useful to all. Six compelling themes emerged from the research:

1. Shift from atoms to bits. Digital transformation is not as mysterious and unobtainable as some may believe. Rather, it is a shift away from using atoms to deliver atoms, and towards using bits to deliver bits.

2. Structure is largely irrelevant. How you organize your people is less important than what you have them do and how they do it. However, Conway's Law suggests that simpler is almost always better.

3. Know your goal. Are you trying to be more efficient, more effective, or more explosive? It's difficult to be more than one at any one time – and critically important to know which you are seeking.

4. Right people, right roles. As we grow increasingly digital, correctly leveraging human abilities as an input to production is increasingly critical, and challenging. This means understanding both what roles need to be played and who best can play them. Get this right, and you'll find success; get this wrong and no amount of technology or investment will prevent the ensuing distress.

5. Time is the new denominator of value. While Return on Investment (ROI) remains important, Return on Time (ROT) is a far greater determinant of value delivery.

6. Flank your competition. The ubiquitous availability of customer and competitor data means fighting your competitors head-on is an increasingly futile task. Instead, use this information to go where your competitors won't, and capture those customers that your competitors can't.

The report explores each of these findings in detail and provides supporting examples. Much of what we cover has ties to other research by LEF.

Takeaways

While these six principles are fundamental to creating an effective NGOM, we recognize that what you really want to know is *what do I do about them*? To this end, we set out the simple model of the *Four Ds of proactive transformation*, or Four Ds for short:

- **Direction.** Provide constant, consistent, comprehensive communication of your organization's goals, including the benefits from changing and the consequences of not changing
- **Dollars (funding).** Ensure that your organization is funding the outcomes, metrics and behaviours that lead to your true end goal
- **Data (metrics).** Use disruptive metrics to achieve the disruptive results that you desire
- **Do It (action).** Focus on doing, rather than planning or analyzing

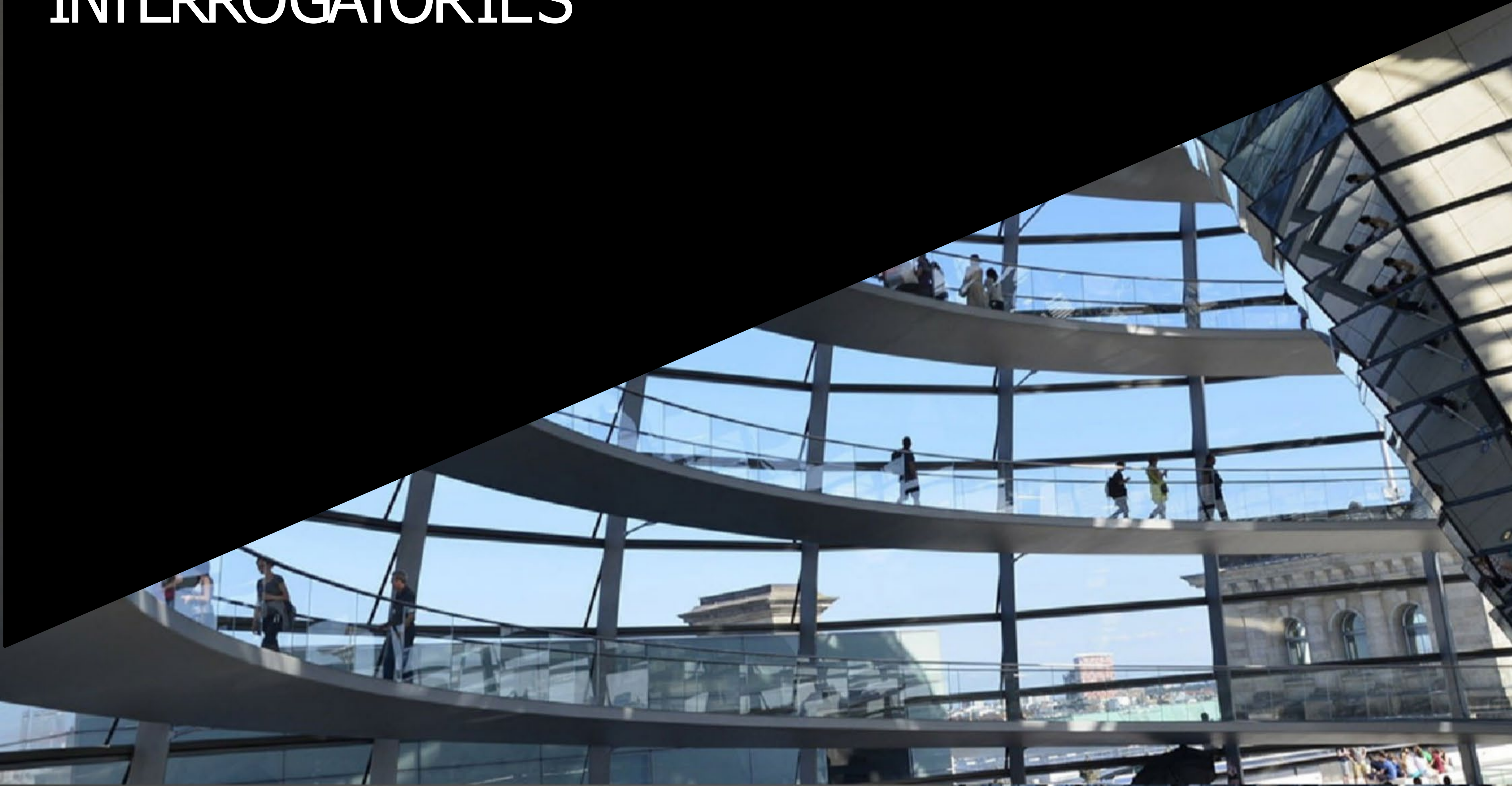
Using these levers effectively is the key to achieving actual organization change."

Using these levers effectively is the key to achieving actual organization change, rather than the mere appearance of it. This may seem empirically obvious, but it is not. As the data consistently shows, the perilous gap between those companies that are objectively achieving transformation and those that are not grows deeper and wider by the day, and the window of opportunity for crossing that yawning chasm is closing fast.

Acknowledgments

Many thanks to those who participated in this research, as well as to my LEF colleagues who contributed so much insight, content and research into supporting its definition and development.

OPERATING MODEL: ANSWERING THE SIX INTERROGATORIES



LEF enjoys an abundance of choice when selecting models for how businesses should operate. At the beginning of this effort we went to our library of these models with the goal of answering the six interrogatories: *Where*, *What*, *Why*, *How*, *Who* and *When*. Upon review, we offer the following three models as the basis of a complete NGOM.

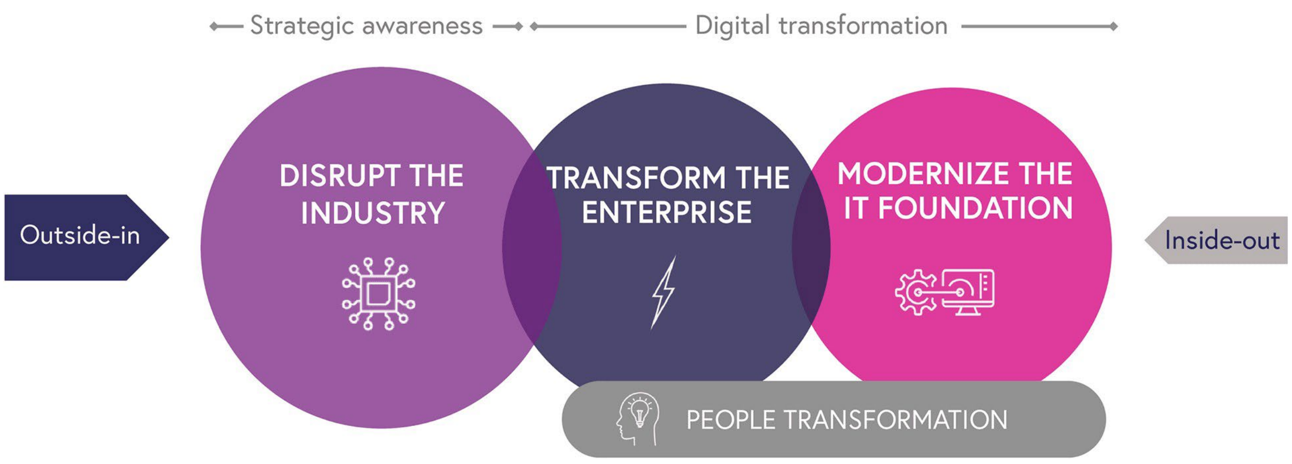
'Where' & 'What': The LEF three bubble model

LEF's three bubble model defines where transformation can and should take place, and what must be transformed in each instance. Organizations can focus internally, on updating their IT foundation, which may include things like moving to cloud and becoming more analytics-enabled. This is a largely tactical approach, centred on the optimization of technologies and processes.

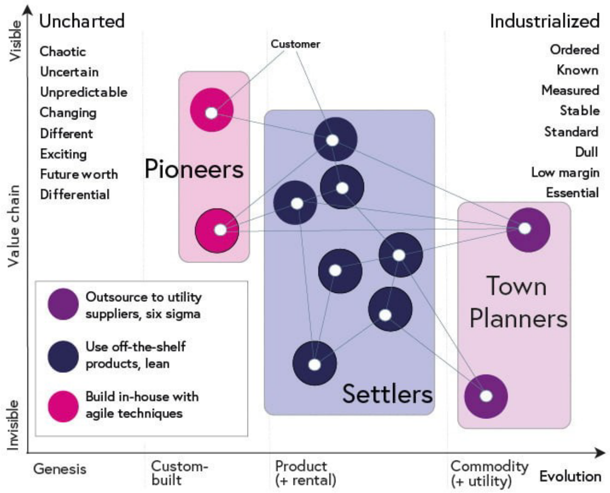
Organizations may go further, and seek to transform themselves. In this case, the organization is attempting to shift the goal posts. It is trying to operate at a new plateau of performance, shifting its constraints rather than optimizing itself within existing constraints. Or, an organization may seek to disrupt its entire industry; this is not shifting the goal posts but playing an entirely different game.

We refer to these organizational foci as Efficient, Effective or Explosive, and will address the differences later in this report.

An in-depth review of this model is available [here].



'Who' & 'When': The Wardley PST model



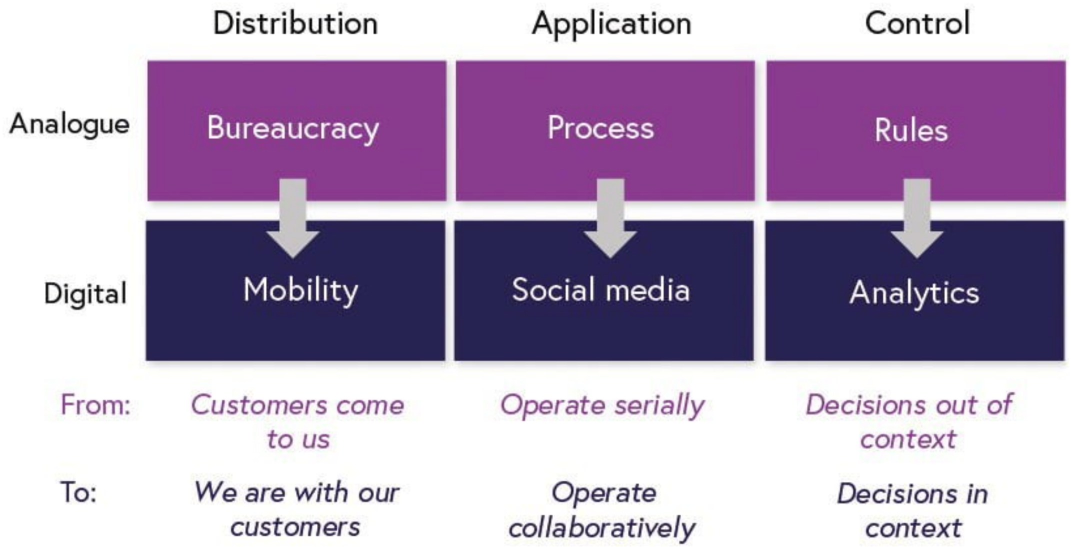
In answering the questions of *who* and *when* to transform their operating model, organizations can leverage Simon Wardley's Pioneer, Settler, Town Planner (PST) model. In this model, Simon lays out the roles necessary to organize effectively around generating outcomes, becoming more agile, and achieving the six findings of this research listed at the start of this report.

Where PST defines the *who* of transformation, his doctrine model defines *when* to transform. A full-write up of PST may be found [here](#) and Simon's write-up of doctrine may be found [here](#).

'How' & 'Why': The Trinities model

Finally, to address the questions of *how* to transform, and *why* to do so, we point to my prior work with trinities of power, and the shift from the *analogue* trinity of *bureaucracy*, *process* and *rules* to the *digital* trinity of *mobility*, *social media* and *analytics*. This model explains what must change in how your organization produces value, and why the transformation is necessary, in a socio-economic context.

A full write up of Trinities is covered in the book [Jerk](#).



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DIGITIZATION: DRIVERS OF CHANGE

Yet another discussion of digital transformation would seem tiresome and overly redundant, if the prior discussions had provided tangible, actionable guidance. Yet the enormous existing body of work on this topic provided little guidance as to what lay before us and is now upon us. That digital transformation was inevitable is no insight; we all saw it coming. What our interviewees were consistently surprised by was both the speed with which the change finally came, and the relative ease and speed with which some companies were able to adapt.

COVID: Candle or match?

Following December 2019, no self-respecting research paper can exist without some reference to COVID-19. There is no shortage of pandemic hyperbole out there, and crediting COVID with changing the world is hardly an Earth-shattering insight. A more useful conclusion is that the underpinnings of transformation have been growing just below the surface of our society for well over a decade, and once we reached the inevitable tipping-point, a mere spark would suffice to start the ensuing fire.

In previous centuries, miners kept canaries or lit candles on hand to test the quality of the air. If the canary died or the candle snuffed out, you would soon follow if you didn't act quickly and decisively. While COVID is often viewed as the dramatic agent of change, like the explosion of accumulated methane in an old coal mine, it wasn't; it was simply the match that initiated the underlying and pending conflagration. "COVID sparked our transformation inertia," shared Gareth Hetheridge, Global Head of IT – Defence, Rolls-Royce. The explosion didn't come from the COVID candle or match, but from the accumulation of explosive, digital expectations over the last two decades. LEF's own research on developing resilience also discusses this topic in detail.

Gareth Hetheridge

Let's explore some of those digital expectations.

Polarization: You either win or you lose

Thanks to digital platforms, social media, consumers now have access to dramatically more information, instantaneously, ubiquitously. Historically, organizations leveraged unequal access to information to gain competitive advantage over both competitors and customers; this is the basis for how Wall Street, and indeed all capitalism, works.

If inequality of access to information has disappeared, the competitive landscape of markets completely changes. In any purchase decision, there is now only one possible winner, and a multitude of losers. Business has become binary, indeed digital; you either win or you lose.

Business has become binary, indeed digital; you either win or you lose."

The challenge is that not all customers want the same thing, in the same way, at the same time, for the same reason. It is imperative to know exactly what customers want, when they want it. Only then can you respond correctly, and be the winner.

This shift in market power from supplier to buyer has led to demand *polarization*. Customers are no longer willing to pay the average price for an average product that on average meets their needs. Instead, in each transaction, you must know the one thing that the customer values above all others at that moment, and provide it better than anyone else, or you will lose every time.

Tactically, this means that if price is all that matters to a customer, then price is all that matters. You are either cheapest at that moment, or you are not. If you are, you win. If something other than price is all that matters to a customer, then you must know what that is, and meet that different need better than anyone else, in that moment. Being *close* or being *competitive* is immaterial. There is no value in second place. Success and failure are binary in a digital world.

Few are better at this game than Amazon, although responding to, or even facilitating, this sort of market polarization is the hallmark of all *born-digital* organizations. They do this as a matter of course, rather than a matter of consternation.

Appification: I want it now

Appification is the inevitable result of billions of people downloading trillions of apps in order to instantly gratify their needs and desires, often for free (or at least the illusion of free). Our relentless, obsessive use of apps has *appified* us. Consumers now believe that it is reasonable and rational to expect their every problem to be solved and every whim sated in 30 seconds or less, at the click of a button. Rational or not, this is a new- and now-normal, and organizations that are unable to respond in kind simply fall away as irrelevant.

Intimately tied to polarization, appification has completely transformed the competitive landscape, and has shifted all power to consumers and the platform providers that host their apps and appetites (see *The Science of Digital Platforms*). Over the last 10 or more years, your customers have been trained, Pavlov-style, to expect instant gratification, at little or no cost and even less effort. Meet that need, with polarization in mind, and you have a chance at success.

Your customers have been trained, Pavlov-style, to expect instant gratification."

Intimacy: Walking the creepy line

Implied in both polarization and appification is an expectation of deep customer intimacy that borders on downright creepy. Born-digital companies not only understand this expectation, they created it. They spent years constructing social, emotional and psychological digital echo-chambers that consumers have become addicted to, and are now commercializing and monetizing them, creating nearly insurmountable competitive advantage.

Now, your middle-of-the-road, competitively priced, mass-marketed thingamabob isn't just irrelevant but may even be repulsive. Customers are expecting you to understand their wants and needs at a deeply invasive level, even as they say that they want privacy and anonymity. Research shows that for the vast majority of consumers, their spoken concerns about their privacy do not coincide with their *buy it now* clicks.

If you want me to buy from you, you will have to know what I want or need, when I want it and how I want it, wherever and whenever I want it. You will have to know me intimately, and the closer you can get to my creepy line without going over it, the better. And if and when you do cross that line, you'd better realize it, and make it up to me in 30 seconds or less. Many of our clients agonize over what it means to be a *data-driven organization*. In summary, it is being able to meet these expectations, effortlessly.

Purpose: The value of labels & causes

Finally, customers have a deep-seated need to feel both valued and valuable. They feel a need to belong and to have a sense of purpose in their world – to answer why am I here? How do I contribute? How can I stand out, while also standing along with?

This need for a sense of purpose feeds a range of behaviours that it is imperative to embrace to remain relevant. This isn't additive to polarization, appification and intimacy; rather, it is multiplicative. Get this right, and you will feed the *something other than cost matters* end of polarization, and you can charge nearly anything you wish. Get it wrong, and you will struggle to understand why your cash-cow products or services continue to wither on the vine, while niche players take away your best and most profitable customers.

This need for a sense of purpose feeds a range of behaviours that it is imperative to embrace."

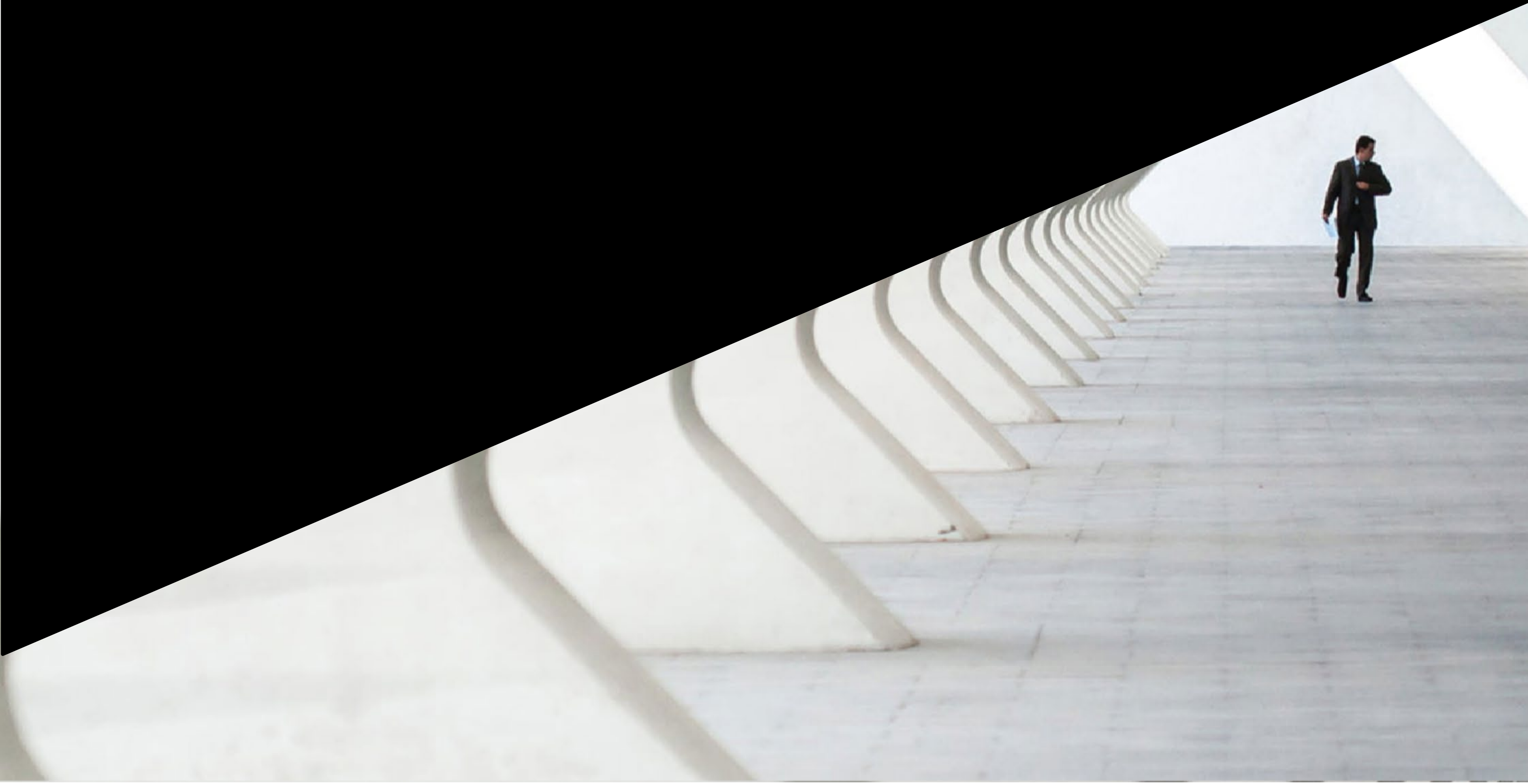
Purpose manifests itself through *labels*. People are deeply embracing identity politics and full-on individualism, and you must not only embrace this trend but feed it, too. Your competitively priced, mass-produced mustard must transform into a gluten-free, fat-free, ancient-grained, bio-degradable, dolphin-safe, solar-powered, socially aware, fair-trade condiment, with its own following on Instagram and Facebook.

Once it does, you can charge triple.

Note that I am not making light of this trend. Rather, I am stating that you cannot afford to sit on its sidelines. You will likely offend as many potential customers by non-participation as you will by participation. The difference is this: in the identity and purpose game, those who scream the loudest tend to win.

With these underlying and driving trends in mind, let's now take a look at what it actually means to undergo *digital transformation*.

WHAT IS DIGITAL TRANSFORMATION?



To have a meaningful discussion about the digital transformation journey we must first have a common, even if suboptimal, definition of what it is. For purposes of this research, we leveraged LEF's *atoms and bits model*, whereby digital transformation consists of the shift in what value is delivered to customers, and how that value is delivered, from being centred on the use and movement of things (atoms) to the use and movement of information and ideas (bits).

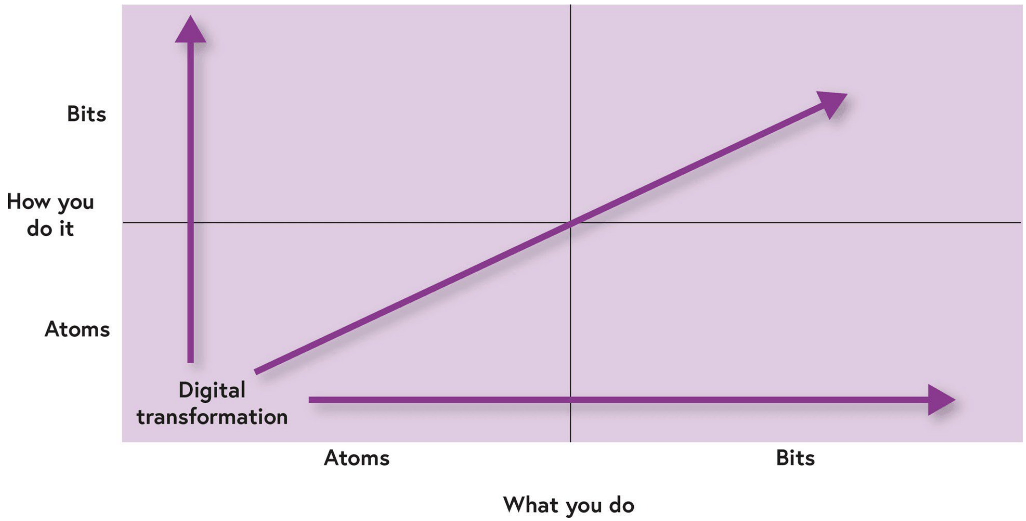
Digital transformation consists of the shift ... from being centred on the use and movement of things (atoms) to the use and movement of information and ideas (bits)."

This explanation of digital transformation is based upon the notion that what customers value is shifting from products and services based upon stuff (atoms) to those based upon, or enhanced by, information (bits). This does not mean that a coal mine creates a social media platform (although it should have a social media presence) or that a casino provides virtual rather than physical vacations (although it should provide both). What it does mean is that a coal mine should emphasize how it is working to reduce its carbon footprint, even while it provides a pure commodity; and the casino should allow you to order your favourite item on its menu online from home, and have it delivered to your home the next day.

Digitization is not just about information; it's about freeing yourself from the tyranny of physicality. It's also about creating value from an item's meta-physical properties, rather than its mere physical properties. It's the value of being gluten-free, fair-trade, carbon-neutral and so on, in addition to what the product or service inherently entails. This model is powerful in explaining the trends outlined in the previous section, as well as the extreme success of born-digital organizations. A deeper dive into this topic in the FinTech sector may be found in our research here.

The shift from atoms to bits

There are two dimensions to this digitization: if I'm digitally transforming, I'm digitizing both *what* I deliver in terms of value to my customer, from purely atoms to more and more bits; and also *how* I provide it, as shown in the figure.



It doesn't matter if you are in a purely commodity business. Indeed, pure commodity players stand the most to gain from the smallest investments. A few years ago, I visited copper mining operations in Peru, which had gone fully digital. The mines were no longer worked by humans, but by robots teleoperated by humans on the surface. While the robots required significant capital costs to implement, the resulting decrease in operating costs gives these mine operators a persistent competitive advantage.

How? They no longer needed to worry about the air quality in the mines (robots can't be asphyxiated). They didn't need to insure against injuries in the mines (robots don't have litigious next-of-kin). The mines themselves no longer needed to be dug to human-rated standards, which allows them to be up to a metre lower, and inherently safer. And the entire operation runs on far less fossil fuel, and has a dramatically lower carbon footprint – a saving that can be passed on to customers through carbon credits. There is little that is more commoditized than digging rocks from the ground, yet even this business can be dramatically transformed through digitization.

Digitization mapping: Automotive examples

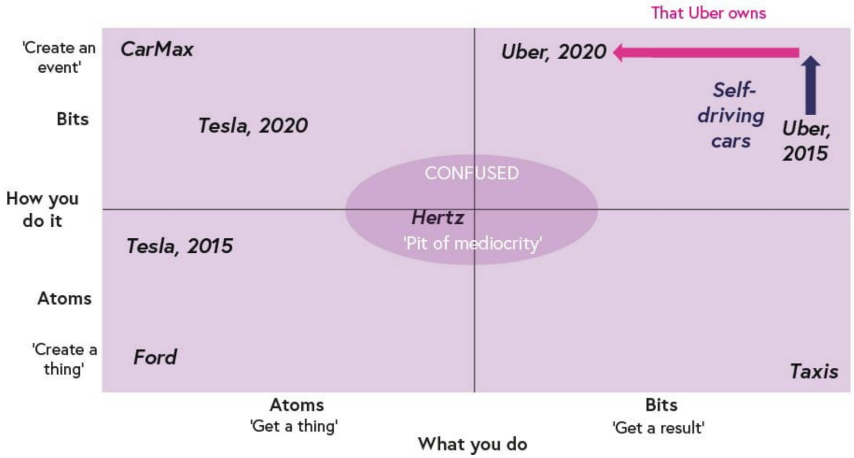
Consider a car manufacturer such as Ford, which seems solidly in the business of selling atoms. It builds a factory and then uses that factory to make cars, which it delivers to its customers. For a century this has been its value proposition. Certainly, bits are involved in the processes of making and selling cars, but for a very long time, auto manufacturers have been solidly pushing atoms.

But, if we think of Ford as participating in the *transportation* market rather than the *car manufacturing* market, we get a much fairer and more contemporary view of how customers value Ford – or do not, as the case may be. In the transportation marketplace, we can say that Ford actually competes with taxi companies. A taxi company uses atoms (taxis) to generate a valuable outcome: they get you to your destination. The result of getting you there is purely contextual; you have no *thing* of value, no atoms, once the transaction is over. Nonetheless, your need was satisfied and a value transaction occurred. The value was in the result, not in the means of delivery.

Similarly, I can transact in atoms, but have the entire transaction be based upon bits. This is the model of the born-digital car company CarMax, an online marketplace that has massively disrupted the traditional dealership model in the United States. Here, customers can buy their atoms (cars) online, shopping from a nationwide inventory, with complete price transparency and a completely virtual sales experience. Customers can even get at-home delivery of their new car, making the process of buying these atoms a completely digital experience.

Then there are the digital disrupters in transportation services: Uber, Lyft and their ilk. Here, a non-physical provider supplies transportation without any interaction with atoms. Even the cars they use are owned and operated by others. These players are *context* engines: they match the context of a need (its place in space and time) with the context of a supply, and take a significant profit in making the match.

Tesla is an interesting hybrid of atoms and bits. A physical car from Tesla is atoms and electrons in equal measure. Tesla has digitized the ownership experience in its owners' app, through which it offers customers constant information- and bits-based upgrades to their car. Some of these are free while others represent upselling opportunities, on a regular basis, throughout their ownership experience. This is another power of selling bits: if you do it right, revenues become periodic and frequent, rather than episodic and rare.



Disrupt the industry: Automotive

This model also clearly displays those who get trapped in the middle of transformation. In this *pit of mediocrity* lie companies that are stuck in the world of delivering atoms, unable to be freed from the tyranny of location by becoming digital. For example, car rental companies such as Hertz, whose recent woes include filing for bankruptcy in 2020. These companies provide atoms on a temporary basis, to customers who have a temporary but location-specific need. As anyone who previously rented cars but now regularly uses ride-share apps knows, the rental car has all of the negatives of car ownership (finding and paying for parking, buying fuel, worrying about accidents and theft, having to drive yourself, etc.) without most of the benefits. In the coming years of digital transformation really taking off, such stuck-in-the-middle players will suffer greatly.

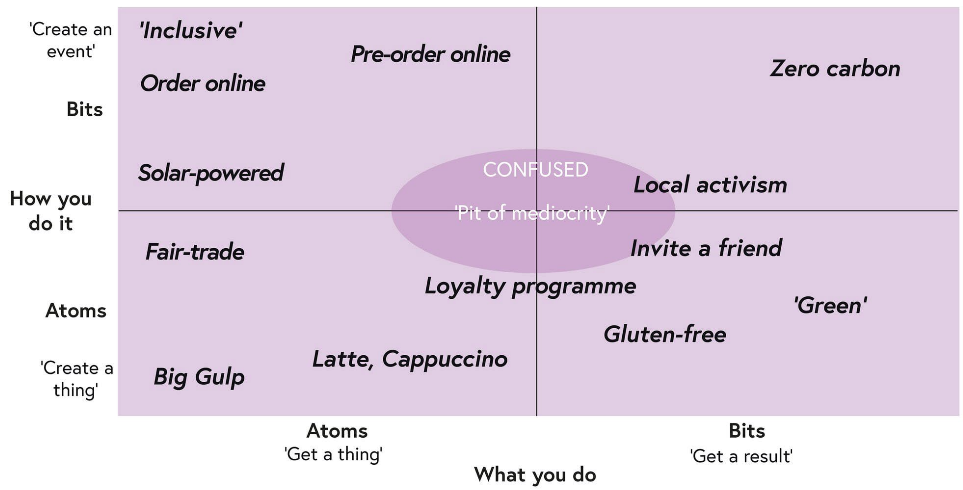
Digitization mapping: Coffee example

Coffee is the second most valuable traded commodity in the world, and is a microcosm of how bits can enhance the value of atoms. At its most simple, the coffee industry is focused on the delivery of hot, caffeinated liquids; but it is also a remarkably complex marketplace with a vast range of options for consumers. While a commodity, coffee is also a community. It is an experience. For many, it is a lifestyle. Knowing whether your customers are looking for a mere morning jolt or value-signalling to the world makes an enormous difference to whether you should focus on the atoms of coffee or the bits.

An American might get their morning sustenance by buying a litre or more of dark, hot water and milk, *big gulp* style. This would be deemed grotesque by their European colleagues, who sip their few millilitres of triple espresso. Same amount of caffeine, radically different delivery mechanisms.

As well as volume, the coffee experience uses lots and lots of labels. They may add nothing to the hot, caffeinated beverage, but they dramatically add to (or perhaps detract from) the experience of being caffeinated. Shifting to the right in the digitization matrix in the figure, along the *what you do* axis, we see companies adding all sorts of labels (bits) to their coffee in an attempt to modify their value proposition to customers.

Call your coffee something with a foreign-sounding name? You can charge double. Call it gluten-free (which coffee inherently is – it's basically just water) and you can again charge double. Make it a fat-free, fair-trade, dairy-free, sole-sourced, solar-powered, organic, zero-carbon, heritage-bred, small-batch, *Café au Exagéré*, and you can auction that drink off at the next Christies' event.



Disrupt the industry: Coffee

Along the *how you do it* axis, we see a number of ways in which coffee peddlers enhance their customers' experience, largely focused upon increasing access to their drug of choice. Ordering online used to be an innovation without merit; who can't wait one minute for their coffee to be poured for them? However, once it took the better part of an afternoon to master-craft a *Café au Exagéré*, being able to pre-order it and not wait an hour in line began to have its merits. Further, pre-ordering your drink so that it was waiting for you each morning started to make a great deal of sense for both customers and vendors. Personalized, hand-written notes on their cup each morning turns a customer into a family member, albeit a family of addicts.

The more advanced, digital, coffee vendors are using digital to become even more engaged in their communities. From hosting local events to becoming politically active, they are shifting farther and farther away from their core product, hot caffeinated water, and more and more towards supporting a lifestyle. When one looks at the price of one of their drinks, and their overall financial performance, one can readily see the power of bits in enhancing, or even supplanting, the value of atoms.

As stated in the discussion of polarization: if cost is all that matters to a customer, then cost is all that matters, nothing else. You can stay at this end of the value chain, pursuing the death spiral of endless cost-cutting, or you can start using bits to completely change how your atoms are perceived. Do this, and your tyres become planet-savers, your hotel rooms become gluten-free, your air-to-air missiles are sole-source, and your life insurance policies are carbon-neutral.

Embrace the value of labels; your customers already do.

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CASE STUDY: MUNDIPHARMA INTERNATIONAL LTD

Philippe Mazas, Global CIO, Mundipharma

Playing in the Final Third of the Pitch: How to adapt & succeed in a changing world

A Response to COVID

Philippe Mazas

Mundipharma is a mid-sized, global enterprise that delivers pharmaceuticals and consumer healthcare products. In 2016 our board of directors gave my team the goal of reducing IT costs by 25 percent, while also enabling the transformation of the business and facilitating innovation. We were challenged to support the business' diversification, which also meant higher business complexity, and the danger of increasing costs that this entails.

Initially, we implemented a range of traditional change initiatives, such as agile and bimodal IT, leveraging our own experience and best practices available around the world. We embraced a global operating model, incorporated business representatives with IT to improve engagement, and set up global delivery teams to leverage scale and experience.

While our goals were achieved, by 18 months in there was an increasing sense of dissatisfaction in the team. While we were meeting our goals, there were rumblings in the team that something was amiss. When we surveyed our IT organization, we received an absolute bashing.

While the external results looked great, internally, our organization was suffering.

We realized that what was missing was our 'why.' We had total clarity on our 'what' and our 'how', but without 'why' people could not own the change and justify it in their own minds. We worked with the team to define and reflect on our purpose, and set about a programme of changes to put our purpose at the centre of everything we did and weave our values into our day-to-day.

This included having our organization's customers and patients coming to talk to us about how our work improved their business and sometimes their lives – always connecting the sacrifices and changes we were making to the better outcomes that we were trying to achieve.

We also worked on capturing and telling our 'hero stories'. Stories are the physical manifestation of your culture, and good stories promote good culture. If you do not nurture the stories of your culture – past stories that we tell one another today and future stories which will be told about us – bad stories may step in and fill the void. This is how your change programme can become rapidly undermined.

This took over a year to get to fruition, but the effects were profound. Our net promotor scores changed from 10 to 40 in that time. When we surveyed our team on their job satisfaction using the *Great Place To Work* survey, our trust index reached 80 percent, just 3 percentage points shy of the GPTW World's Top 25. Our people were no longer tired and frustrated, they were inspired and energized.

At that time we had some form of a bimodal organization, but while we had some early successes these were rapidly overtaken by the divisive nature of bimodal. We recognized that we had created an organization of 'have's' and 'have-not's' and this was exceedingly unhealthy.

Our experience seeks to mirror that of great football teams, where their coordination and talent makes their game play appear effortless. When we consider what makes them great, it's that they achieve the right balance between freedom and discipline. While the breakaway goal is the peak of excitement for the team and its fans, you cannot get the breakaway on the offensive unless you've achieved discipline and structure in your defence and mid-field. The last third of the pitch operates on freedom of movement, but only if the other two-thirds of the pitch are first properly controlled.

Great teams use both discipline and freedom, but more importantly they use them correctly and at the right time. Used together, discipline and freedom lead to victory. Used in opposition, they will bring your organization to dysfunction, loss and finger-pointing.

We leveraged Wardley's PST model to embrace this balance between freedom and discipline, as PST identified and filled the gap that needs Settlers. All three roles, working and moving together, using both freedom of movement (agile) and discipline (structured, process-based IT), was our recipe for success. The Settlers were elusive to find, but they were the critical glue, connecting freedom and discipline.

Fortunately, we had implemented this operating model just prior to the pandemic. This thinking was already in place as we structured our response to COVID and enabled our success in responding quickly and responsibly. As we acted upon this crisis, we were able to avoid doing 'drive-by IT,' dropping off Zoom or Skype and hoping for the best. We were able to make transformational changes, only much faster and vastly cheaper, enabling digital engagement both internally within the organization and externally with our partners, customers and patients.

Looking back, we can see that this 'Total Digital' model (the football strategy model that inspired it was called 'Total Football') needed the foundations of two transformations to be successful:

1.Deploying standard disciplined practices and processes to control the first two-thirds of the pitch, and

2.Establishing the purpose at the core of our operating model to keep the team together while playing freely in the final third.

While the Total Digital model has already delivered major benefits to the business, we feel this is really just the beginning. In the future we want to develop it further, defining better when a project sits in the first two-thirds of the pitch or in the final one, articulating better how the PST roles collaborate in the final third, and exploring further how we can harness the power of external partnership within this model.

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STRUCTURE IS LARGELY IRRELEVANT

Historically, efforts at reworking an organization's operating model focused heavily on organizational structure – on who reported to whom, and who was responsible for what. New, better or different outcomes from this exercise seemed to matter little. Rather, it was the process of shuffling the deck, politically, that seemed to be the end game. The notion that doing *something* was better than doing *nothing* appeared to prevail, as too did the notion that it was less risky to appear to change than to actually attempt to do so.

Hence, historically many if not most operating model changes consisted of *deckchairing*, a derisive term acknowledging that shifting people and responsibilities from team to team, department to department, manager to manager, is as effective as reorganizing deck chairs on the Titanic. It may feel useful and productive in the moment, but it has little bearing on the ultimate, watery fate of the organization.

To our research participants, deckchairing was an all-too-familiar phenomenon. The temptation to shift roles rather than actually change is extremely enticing. But those who achieved actual transformation recognized that something more was necessary.

To answer a question, or generate an outcome, organizations combine:

- People (talent, experience, skills)
- Alignment (structure, roles, responsibilities)
- Resources (budget, time, focus)
- Tools (technology, raw materials)
- Information (data, metrics)

An organization creates value by combining these items. In classic deckchairing, the only input that is changed is alignment – who reports to whom – yet we expect to achieve a different result. You may have the best footballers in the league, but if you ask them to play water polo, does it really matter which position you give to each player?

This is the challenge that most organizations are facing. It is not that the rules of their chosen game have changed, it's that they are being forced to play an entirely different game. Shifting people around has little or no impact. More change is necessary.

Our participants agreed that in order to generate transformational change, you had to get new combinations of people trying to solve new problems. Having the same old people apply the same old knowledge to answer the same old questions, will not lead to new results. Further, if everyone you set to solve a problem has a hammer, the problem at hand had better always be a nail, or they'll be stumped every time. If deckchairing is part of your plan for transformation, better smash the deck chairs, buy some hammocks, sofas, chaise longues and stools – and then make First Class passengers start to spend time with those in Steerage.

The feedback is clear: shuffling works, shifting does not.

To generate transformational change, you have to get new combinations of people tackling new problems."

The tyranny of hierarchies

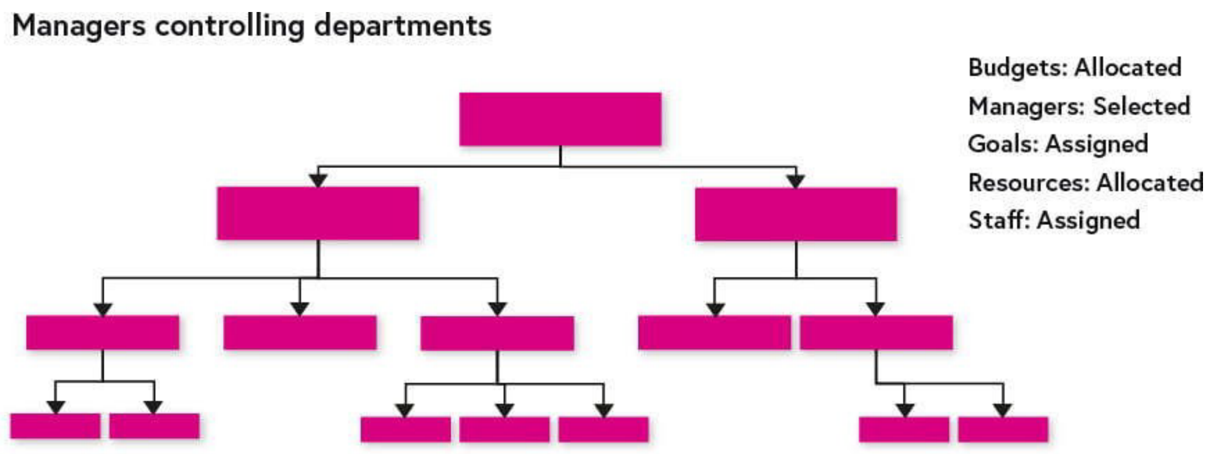
Hierarchies have been the basis of human organization for millennia. Driven by the military need to command and control thousands of people at a time, hierarchies made sense when ability to communicate was limited to how far you could see or shout. Hierarchies persisted for so long because as long as our ability to communicate was limited, so too was our ability to observe and control. The linearity of hierarchies, along with rigid discipline to ensure control, meant that generals could be reasonably assured that every soldier on the field received and followed his commands.

In the modern era such linearity and control are an ever-growing hindrance. Information is ubiquitous (or should be). Communication is omnipresent (or should be). A general has immediate, accurate, unfiltered access to the lowliest soldier on the front line, which means all of the layers between that general and that soldier are not only superfluous but detrimental. This undermining of the value of hierarchies has been in place since the start of the information revolution. COVID will further accelerate its decline, as anyone Zooming or Skyping with dozens of colleagues and managers every day can attest.

Additionally, most participants agreed that simplification of their organizational structure was critical. Conway's Law states that an organization's outputs mirror how they are structured and communicate: if you have four teams of developers working on a software package, the software will look, feel and likely operate as if four different modules were placed together.

This may seem empirically obvious, but it also points out that if your products or services are extremely complex, this may be due to how you are organized rather than inherent complexity in your outputs.

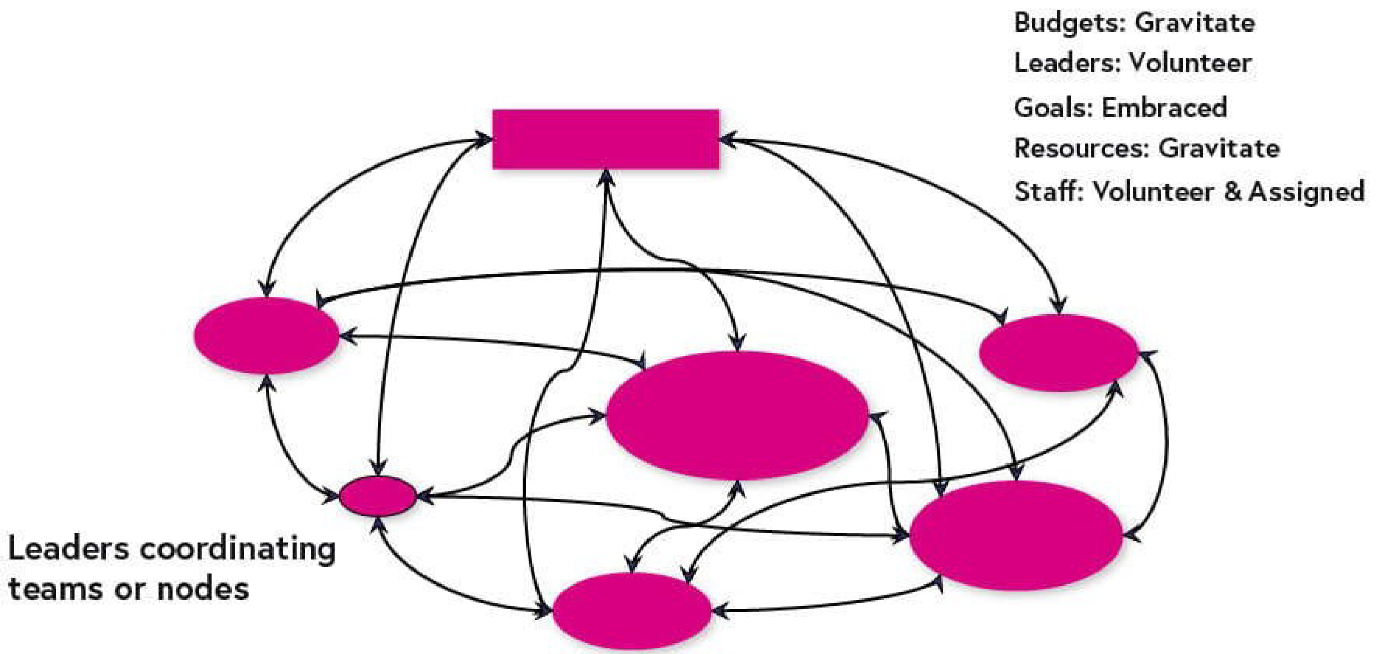
Our research participants were clear about what was necessary in how people were organized: *change*. But do not change the hierarchy. Rather, change the make-up of the teams of people assigned to a task. Change the other inputs to the value equation provided above; the more the better. Ensure teams are cross-functional and made up of people with different roles, responsibilities and experiences. Shuffle, don't shift. And empower these new teams with new data, previously unanalyzed and fresh with insights.



Historic organizations: Hierarchy

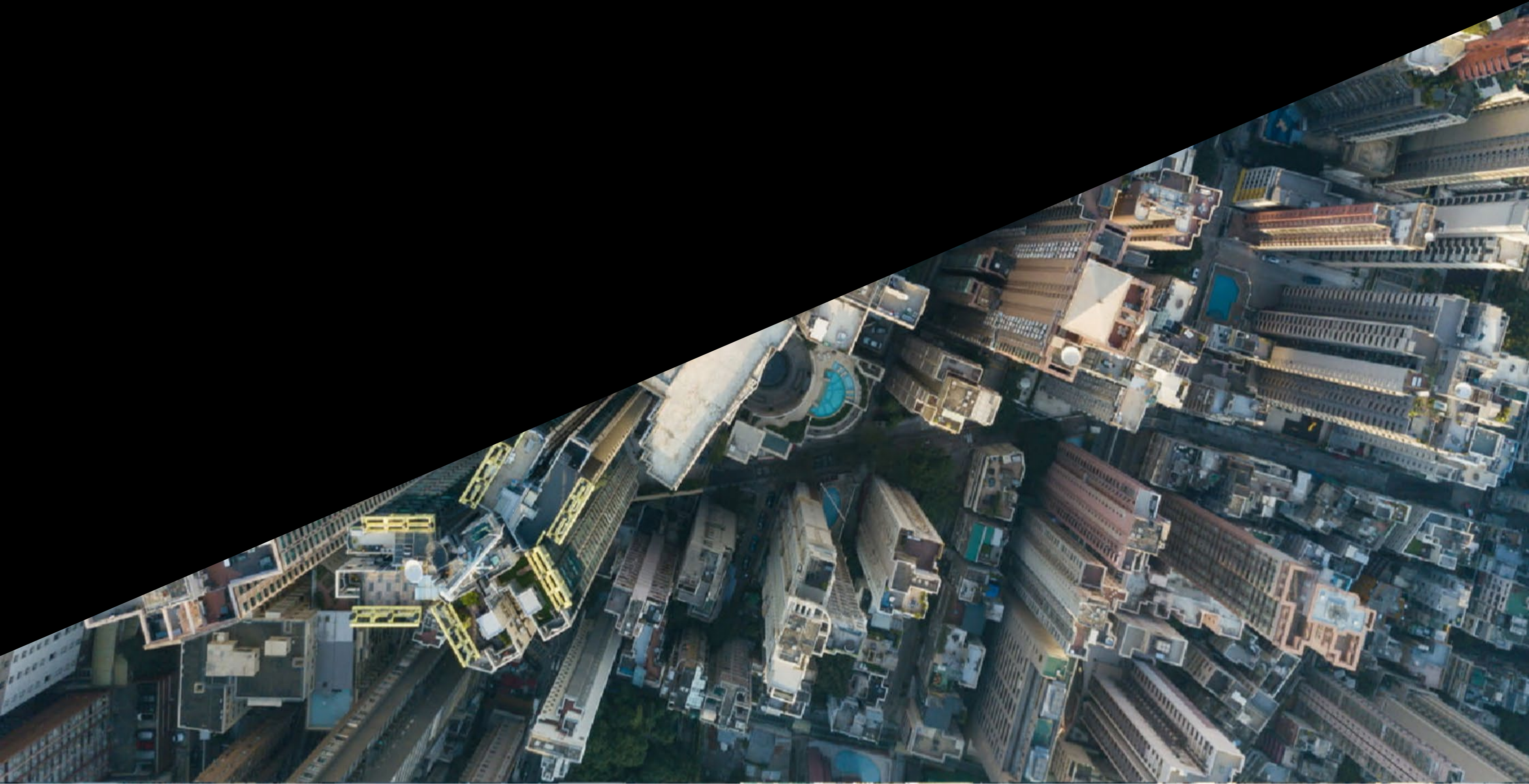
Over time, organizations need to shift from a structured, hierarchical model to an organic model in which each individual organ contributes to its health, but they are interdependent, and tied together by a circulatory information system. Information won't flow up and down a chain. In an organic model, it will flow amongst and throughout the organization, being utilized when and where appropriate and as needed. There is still a command-and-control function – a brain and nervous system – but the individual organs function with a degree of autonomy, and the brain simply ensures their coordination towards a common goal.

This is the exact opposite of hierarchical management, and it's about time that it takes over, only 70 years after it was first possible.



Future organizations: nodes & webs

KNOW YOUR GOALS



While the title of this section may appear trite, the feedback from our interviewees makes it clear that it emphatically is not; rather, it is fundamental. The organizations that have been effective at transformation are those who clearly understood and clearly communicated their goal, and stayed true to that end-game throughout their journey. The old meme of 'if you don't know where you're going, any road will get you there,' certainly holds true. But so too does the meme 'if you're unsure of where you're going, the wrong road will DEFINITELY take you there.' As Vijayanand Vadrevu, Head of Global Drug Development IT for Novartis, told us: "Thought leadership is easy, execution leadership is hard."

If change is your goal, it is imperative that you know what sort of change you are pursuing."

Vijayanand Vadrevu

Efficient, Effective & *Explosive*

Change comes in many forms, and our community of executives universally agrees that if change is your goal, it is imperative that you know what sort of change you are pursuing. Escalating degrees of change bring with them escalating degrees of costs, in money, time and risk. Hence understanding and *aligning* your imperative, appetite and budget for these resources is what determines your correct strategy.

A person staggering out of a fast-food restaurant in a major city, fully sated by some value meal, has a very different appetite for yet another bite of food than a person lost in a desert for four days. Each has a different imperative, appetite and budget for their next meal, and each should act accordingly. Hence understanding your context in making a decision is imperative to making the right decision.

According to the LEF three bubbles model, there are three levels of transformation from which you can choose. You can become more *efficient*, more *effective* or more *explosive*, again according to your imperative, appetite and budget. Picking the right one, for the right reasons, is fundamental to choosing and following the correct path for your organization.

Focus on *efficient*: Modernize the IT foundation

Taylorism introduced the imperative of efficiency. Maximizing capital returns by maximizing throughput and utilization is a first principle of Capitalism; Edward Deming codified the notion of incremental improvement in the quality revolution of the 1950s. These two resonating concepts have driven business thinking for over half a century. Slow, steady, incremental improvements in efficiency have delivered the modern world we enjoy today.

Many organizations continue to focus on efficiency. They want to do the same thing they've always done, just one or two percent cheaper than before. The constant advance of technology enables this strategy, and often IT is the greatest proponent of this incrementalism. If an iPhone 5 is good, an iPhone 6 is better still, so let's upgrade.

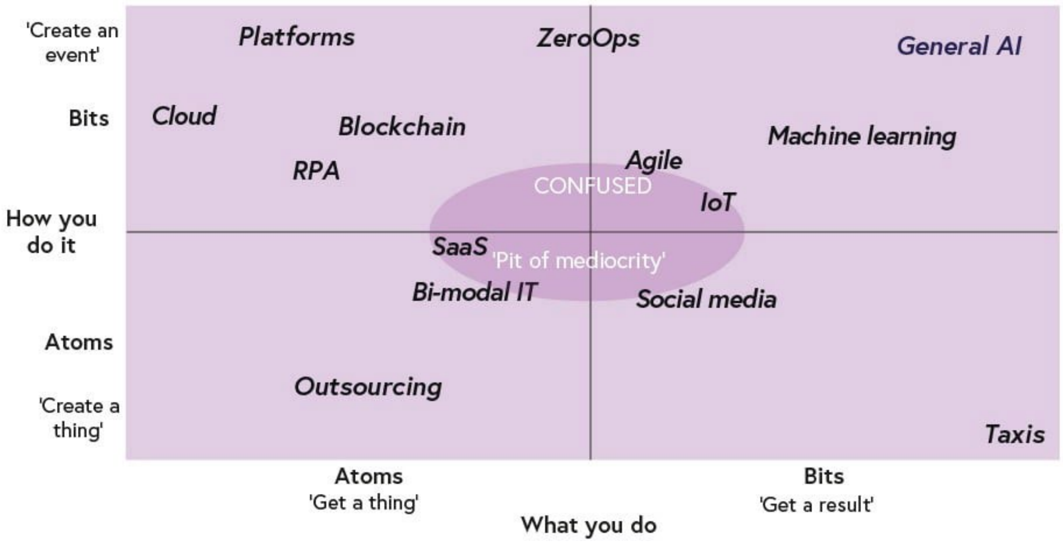
However, there is a point at which the incremental benefit does not and cannot cover the cost to achieve it. This is happening with greater frequency, as relentless cost-cutting means there is less absolute saving in each percentage point saving achieved.

Many of our participants noted this effect, and most agreed that they were finding the incremental, efficiency approach no longer worked. While they were implementing a wide array of new technologies and techniques (such as cloud, Robotic Process Automation and Agile), results were increasingly hard to achieve without fundamental change. This is because at some point, there is so little additional saving to be had, or the incremental saving has shrunk so much, that the investment isn't worth making. In many ways this is Jevon's Paradox, from economics, in action.

The use of new technologies to gain efficiency is prevalent, but increasingly the results are marginal, at best. For example, all of our participants were adopting cloud computing to varying degrees, but few were realizing incremental, let alone substantial, financial gains from its use. "Don't use cloud until you're ready to control the costs. Cloud can get very expensive, very quickly," said Gareth Hetheridge of Rolls-Royce.

The majority of those surveyed found that the use of cloud leads invariably to an increase in IT infrastructure unit costs, rather than a decrease. According to Vijayand Vadrevu of Novartis, "Cloud only makes sense if you value speed to innovation and speed to market." The cost saving, if any is actually realized, is in achieving better utilization of assets that would otherwise be underutilized due to seasonality, episodic development, test and deployment demands, and other causes of capacity variability. In environments with a high degree of variability, paying as you consume, albeit at a higher unit cost, can generate positive returns over time.

If only those who had high degrees of variation in demand realized significant savings from adopting cloud, why is it that 100 percent of participants are



Modernize the IT foundation

actively adopting cloud anyway? Nearly all participants recognized that, even if more expensive on a unit basis, cloud computing provides a range of other benefits which make it worth the cost. These include, but are not limited to:

- Shifting costs from capital expense to operating expense
- Dealing with seasonal demand
- Accessing advanced tools and capabilities provided by hyperscalers
- Shifting existing workforce resources
- Reducing delivery cycle times

As shared by Will Wigmore, Head of Enterprise Architecture at Maersk: "Migration to cloud should force you to rationalize. Simplicity is critical to agility and speed and this fundamentally drives changes to your operating model."

Will Wigmore

Despite these realizations, the majority of those surveyed conveyed that their cloud adoption efforts had not met all of their expectations. The primary cause of this is reported to be a failure of expectations, rather than of technology or its application. Many organizations adopted cloud using a *lift and shift* mentality – that is, they moved their platforms from dedicated infrastructure to cloud as-is, with no changes in operations, support, resources or utilization. For a deeper analysis of this issue, check out David Rimmer's research on Cloud here.

Modernizing the IT foundation

Modernization principles are sound, but only when properly & appropriately applied.

Initiative	Getting it right	Getting it wrong
Cloud-first	Targeted use, financial engineering	Expect cost savings, lift & shift
Data-first	Curation, fluidity, everyone, everywhere	Warehousing
Analytics-first	Create outcomes	Create insights
Automation-first	Seek ROT	Seek ROI
AI-first	Focus on data & training	Focus on tools & techniques
Platform-first	Platforms for speed & reuse	Platforms to save cost
Simplify	Resilience, transparency & speed	Cut costs
Secure	Security is a value proposition	Security is a cost

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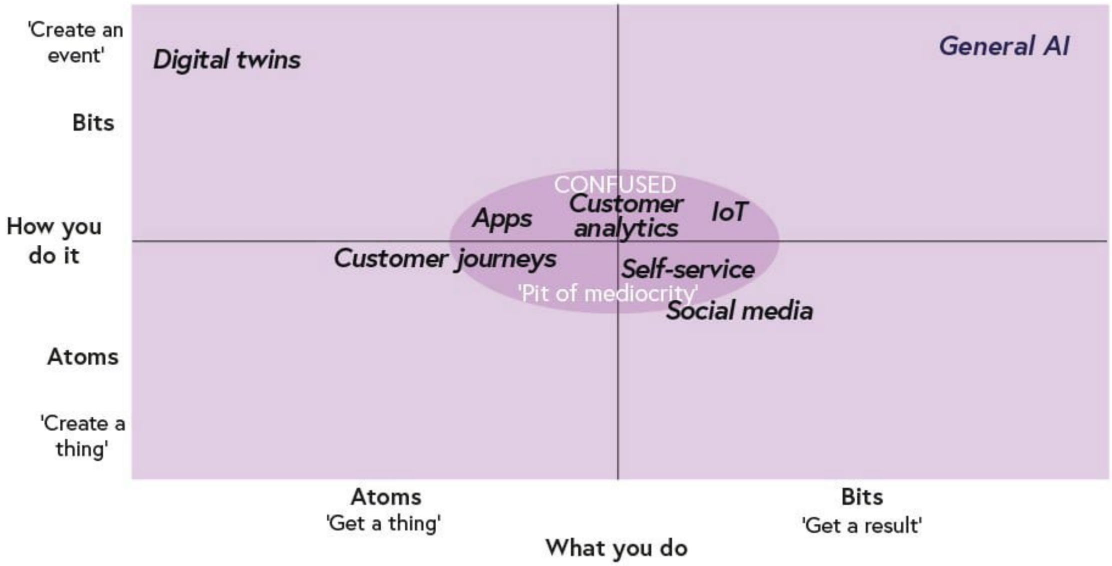
A disruptive technology can be disruptive, but only if it is used disruptively. Alternatively, a disruptive technology might provide efficiency gains, but those gains are unlikely to represent a good investment over time, and will be challenged to cover the cost of adoption.

Focus on *effective*: Transform the enterprise

Some of our participants took a more strategic approach to transformation, focusing upon organizational effectiveness rather than efficiency. While these terms may sound synonymous, they emphatically are not. Efficiency focuses upon providing a specific outcome in a better way; effectiveness focuses upon providing different outcomes that better meet a customer's needs.

Several of our participants noted that understanding and embracing this change in thinking was fundamental to achieving breakthrough results. For an aerospace company, it meant stopping asking *how do we deliver airplanes to our customer?* and instead asking *how do we help our customer successfully complete missions?* An insurer stopped asking *how do we reduce the paperwork in our application process?* and started asking *how do we process an application without using paper?* A government entity stopped asking *how do we renew drivers' licence applications faster?* and instead asked *why does an existing driver have to come into our office at all?*

Transformation for efficiency looks to better respond to our constraints. Transformation for effectiveness forces us to question the underlying assumptions about those constraints. And transformation for an explosion simply says: there is no spoon (i.e. constraints, as in the movie *The Matrix*).



Transform the enterprise

Challenging and then shifting the constraints on your business is significantly harder than improving efficiency, but the rewards are worth it. Several participants noted that the greater the risks that they took, the greater the benefits once they were earned. Organizations that use new technologies in new ways rather than updating their old ways are taking a step in this direction.

Further along still are those who use dramatic changes in metrics to break out of their constrained, incremental thinking, and achieve breakthrough performance. This was a recurring theme throughout this research. Multiple organizations, from multiple industries and locales, all had the same observation regarding extreme metrics: *if you set high expectations of your organization you get better results than if you set incremental expectations.*

They also found that setting such stretch goals actually reduced the risk of failure, rather than increased it. At first this appears counterintuitive; however, it makes sense upon further reflection. Incremental goals set a low bar for expected positive results. This also implies there is a low bar for negative outcomes. Thus an environment of extreme risk aversion is created and reinforced. Organizations that set radical metric improvements (such as *cut a process cycle time in half*, or *perform the same task at half the cost*) often found that the high expectation of success afforded people more room to take acceptable risks, which increased their chance of success.

In adopting transformation for effectiveness, organizations actually move the constraints of their business rather than reinforcing them, as with efficiency transformation. Your organization shifts to a new plateau of performance, which allows an entirely new generation of efficiency gains to begin. This is as Edward Deming intended when he defined the quality revolution 70 years ago, but many of us simply forgot the disruptive part of his ethos.

Transforming the enterprise is as simple as breaking through old constraints and finding this new plateau of value delivery for your customers. It's as simple, and as difficult, as that. But as several of our participants demonstrated, this is both achievable and compelling.

Those who use dramatic changes in metrics to break out of their constrained, incremental thinking … achieve breakthrough performance"

Focus on *explosive*: Disrupt the industry

Finally, transformation can entail completely disrupting an industry – not being more competitive, but eliminating competition altogether. It involves not playing the game better (efficiency), or changing the rules of the game (effectiveness), but playing an entirely different game. An efficient hospital works to reduce the cost of caring for a patient; an effective hospital works to earn more profits, or serve its community better, by making patients healthier. In contrast, Google Health tries to keep patients from ever going to the hospital at all. It monetizes health, rather than sickness. It earns money on the 99.999 percent of the population not in hospital, rather than on the 0.001 percent that are.

Disrupting an industry involves taking a value chain, tearing it apart, and largely doing the opposite of whatever it intended to do, explosively. So, Google Health and Apple Health make money from people being healthy, not sick; Uber and Lyft beat taxi companies by not owning taxis; AirBnB beats hotels by not operating hotels. Disruptors destroy value chains by focusing on customer value, and destroying the chains that bind it. They do this with information – the new source of wealth in our world.

Only a handful of our participants fell into the category of industry disrupter; despite omnipresent media coverage, such firms are still relative unicorns. However, we are relatively early on in the digital era and their numbers are rapidly growing. Those that fit this mould operate at lightning speed, with minimal process or staff, and do the very things that their traditional competitors refuse to do.

Disruptors destroy value chains by focusing on customer value, and destroying the chains that bind it. They do this with information."

A company selling satellite data on land hydration doesn't appear to be competing with a farm equipment manufacturer, yet it is dramatically improving the effectiveness of the farm equipment in the fields, thereby tanking the market for additional farm machinery. A company manufacturing long-range, high-endurance drones doesn't appear to be competing with a military jet manufacturer, yet its drones can perform 90 percent of the jet's missions at 1 percent of the cost. Amazon might make very little profit on every Prime delivery made, but every other competitor takes a significant loss in revenue every time Amazon does so.

A FinTech startup specifically targeted providing unsecured personal loans to migrant workers who had no credit history but steady pay cheques. These customers were actively avoided by all other banks, as they were the definition of a bad credit risk. The result? The FinTech *doubled its revenues weekly* during its first year, as its customers referred all of their similarly situated friends, family and colleagues for similar loans. Further, it began providing high-profit, secured loans for things like cars, motorcycles and boats to these same now-loyal customers, eating directly into the profit centres of traditional lenders.

Disrupting the industry is an exceedingly difficult task for most existing organizations because it requires doing the very opposite of everything you currently do. Few organizations have the fortitude to carry this out, and those that have succeeded use a specialized, separate organization, sequestered from the rest, in order to achieve their break-out results.

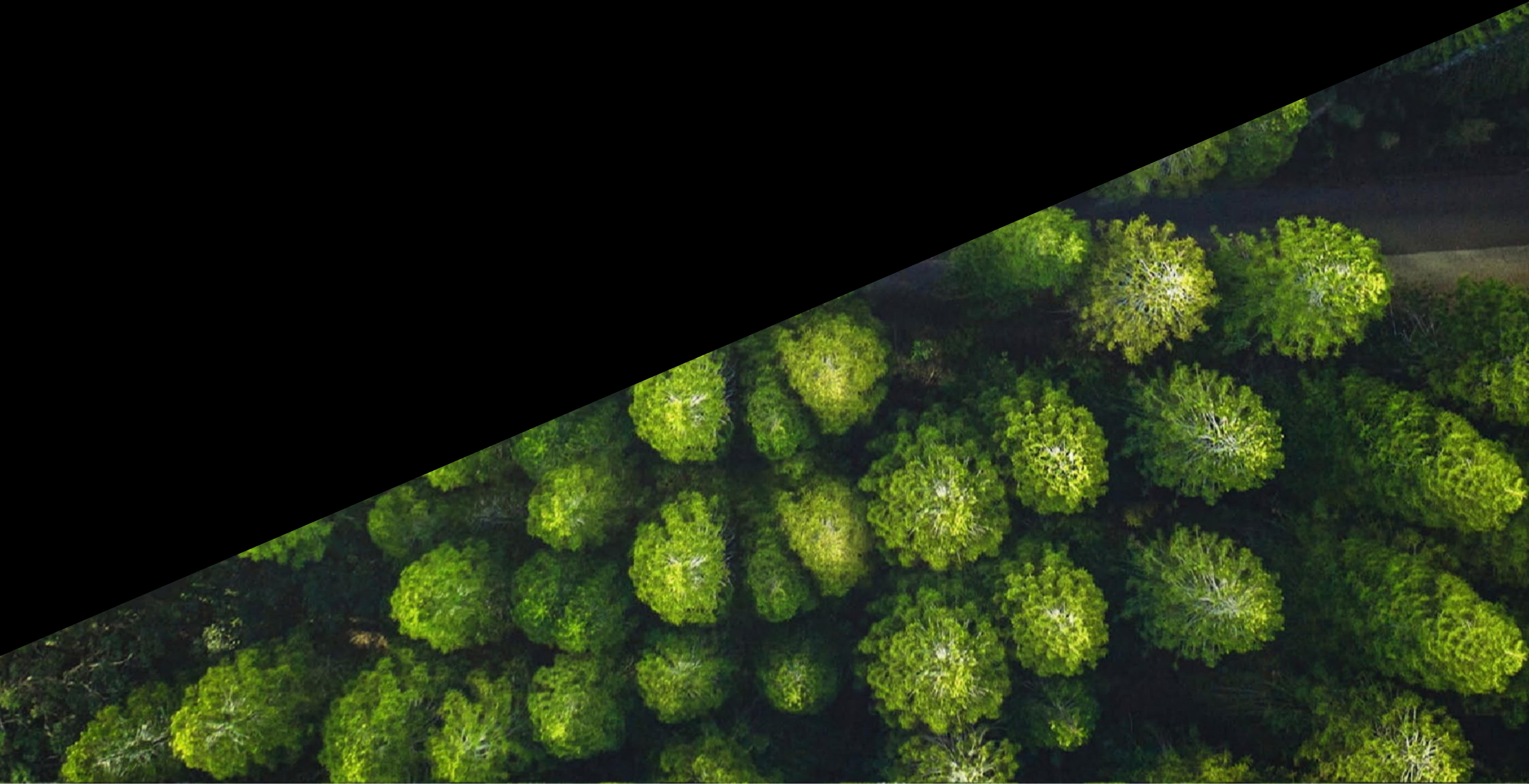
Disrupting the industry is an exceedingly difficult task for most existing organizations because it requires doing the very opposite of everything you currently do."

One of our participants, an insurance company, used this very method to successfully disrupt itself. It created a separate organization, a *skunk works*, tasked with using digital techniques and data to completely disrupt the parent company's operating model. This sequestration was key to ensuring that the host body didn't kill the hostile virus as it took root. Over the course of a few years, this upstart managed to completely rewrite the rules of the parent's business, generating orders-of-magnitude improvements in speed and profitability.

To get this form of disruption right requires focus, guts and an appetite for fear, uncertainty and doubt. If you follow this path and do not feel these things, you're doing it wrong. You can know the destination – indeed, you need to know that destination – but the path should be uncertain and fraught with dangers. According to Elon Musk, there were multiple occasions when both Tesla Motors and SpaceX were days away from bankruptcy. The world was betting against him and his companies. His destination was clear, if his path to get there was not. Today we marvel at the success of these two companies, their achievements and their market valuations. Yet there was no certainty that either company would have survived its path towards success. Indeed, their failure appeared to be assured.

This, then, appears to be the best indicator that you are getting it right when you are attempting to disrupt an industry – to be explosive: if you are chasing that which seems impossible, and that everyone else avoids; if you find that everyone is betting against you and saying you're certain to fail; these may be a good indication that you're on the right path.

RIGHT PEOPLE, RIGHT ROLES



Our research made it clear that who we employ, and how we employ them, is a fundamental dimension of our operating models. In most organizations, human labour is the largest expense, so remaining efficient and effective requires that we hire the right people and use them in the right ways. Organizations maintain an entire function to manage this (typically referred to as *Human Resources* and notable for being heavily staffed by humans).

It is thus ironic that a key factor in successful digital transformation appears not to be using people in support of technology, but viewing humans as unique contributors of value and technology as a lever that they wield. Digital transformation is enabled by technology, but the creation of transformative results is an emphatically human endeavour.

A recurring theme throughout our research was the growing importance of people in either driving change or preventing it. While there has been a great deal of hype about the next wave of automation rendering humans useless and unemployed, the reality is precisely the opposite.

Digital transformation is enabled by technology, but the creation of transformative results is an emphatically human endeavour."

As we embrace automation, human *intelligence, interaction* and *intervention* will be more critical than ever. We will address this in our upcoming research, but it's fundamental to this operating model discussion as well.

Some are more equal than others

As we enter the accelerating-adoption phase of the new automation era, and focus on how to replace humans with automation as rapidly and efficiently as possible, some organizations are realizing that their focus must shift from how many people they can replace to which people they must retain or obtain in order to remain relevant. (If the Titanic is sinking, it is far more important to know which engineer or riveter is best at repairs than which waiters or bottlewashers are less efficient than others.)

If automation is going to dramatically accelerate the underlying performance of our processes, then it is ever more critical that those processes are actually good. Technology leverages human thought and abilities, and the longer the lever, the greater the difference in results from an average input and an exceptional one.

But it is also necessary to recognize that transformation, by definition, changes the rules of the game, if not the game in its entirety. What was defined as *good* before you transform may post-transformation become a liability. Hence, our definition of *good* must change from being heavily based upon people being cost-effective, capable and compliant, to based on people being dexterous, discerning and dogged.

From organizations that claimed to have success with transformation this message came through loud and clear: having the right *mindset*, post-transformation, is far more important than having the right *skillset* pre-transformation. Being able to bend-it-like-Beckham in football is meaningless if you're now playing water polo and your David doesn't know how to swim. Indeed, post-transformation, having a hydrophobic David on your team becomes a substantial liability, as you will continue to depend upon his skills in ways in which he simply cannot deliver.

This was a hard pill for many CxOs to swallow: their experiences pre-transformation frequently were not only not useful but were often their biggest impediment. A caterpillar's ability to eat an entire leaf in one sitting becomes an impediment once it becomes a butterfly; this is why the butterfly gives up that ability while pupating. What was useful in the past can be harmful in the future when one truly transforms. Of those companies that claimed success with transformation, flexibility and openness were keys to their success. Experience counts, of course, but only that experience associated with how to adapt and overcome; being able to optimize ROI calculations in Excel was rather less useful.

We will visit this theme in depth in our upcoming research on automation, but it was repeated again and again over the course of this operating model research.

Tool operators, carpenters & architects

Identifying which people are of value to the organization, and why, was consistently mentioned in our research as key to successful transformation. This aligns precisely with the discussion of what change in value you are trying to achieve, and your appetite for risk, as outlined above in the section *Know your goals*. The goal you are trying to achieve will largely define those skills that you must retain or obtain, and the degree to which you will either embrace or encumber them.

For argument sake assume that your organization's goal is creating a house. If, due to regulations, design efficiencies, norms of style and other constraints, the design of the house is fixed, and all that is necessary is assembly, you need only hire hammer-operators. They should be very good hammer-operators, able to hammer nails according to specification. On the other hand, they should not be the *best* hammer-operators, because the best would be unnecessarily expensive. A hammer-operator's value is in hammering nails consistently, predictably, reliably and as cheaply as possible.

If instead your customer wants a home with some design changes, floorplan alterations, and customizations, you need a carpenter rather than a mere hammer-operator. This is not to say the carpenter is better than the hammer-operator– he or she might have only marginal hammering ability, but be highly skilled with a saw, plane and awl. The carpenter's value is in the combination and integration of different skills, used to create something different from what came before. It must still be built to specification, but within those constraints the carpenter can use his or her creativity to create things of enhanced value.

But what if your customer wants something completely new and unique? What if they want to defy all conventions of what a house might be, and create something entirely new? What if they want it to be eco-friendly, carbon-neutral, based upon recycled materials and architecturally unique? Neither the hammer-operator nor the carpenter may be able to meet this need, but an architect might. Indeed, an architect could take this list of new and outlandish requirements and come up with something entirely new, such as a house built from recycled steel shipping containers.

There are no regulations governing the construction of such a home; yet now they will come. There was no precedent for how such a home would be built; yet now they are being defined. There was no understanding of how large of a market for such a home might be; yet now customers are placing themselves on a waiting list. The architect is not constrained by what has been; they free themselves, and us, by envisioning what might be.

And note, neither the hammer-operator nor the carpenter has much relevance to the building of this container home. Now you need welders and steel workers.

This experience – of understanding that true transformation requires new skills and experiences – rang true again and again with the executives we surveyed. Understanding what level of transformation you seek, and what the other side of that transformation might look like, will help you understand which skills will be required once you get there. But note: if those skills aren't different from what you use today, and they didn't exist or were not valued in your organization prior to transformation, how truly transformational is your result? Needing welders rather than hammer-operators, and finding greater value in carpenters and architects, are clear signposts that you are entering Containerville.

True transformation requires new skills and experiences."

Agile is an approach, not an answer

Unanimously, our participants are actively adopting agile approaches to application development, and DevOps for run and support functions, but their adoption varies widely. A small number of organizations are applying agile across the board, even in more traditional technology groups such as mainframe or Enterprise Resource Planning (ERP). Far more common are organizations that have embraced small, focused and separate teams of developers who follow agile methods as a bridgehead towards more agile operations in support functions. Regardless of the depth and maturity of their adoption, our participants have recognized that agile is an approach, rather than a panacea for all that ails IT.

An important point was reiterated by those who have expanded upon their initial trials with agile and are growing its breadth and depth across their organization, as Diane Schwarz, CIO of Johnson Controls, shared: “Agile requires more governance, not less.” Gareth Hetheridge of Rolls-Royce had a similar viewpoint: “Agile doesn't work across the board. For security and infrastructure, we found waterfall to be better.” There seems to be a misconception that agile means unstructured, undocumented and perhaps even untested; just build, deploy and hope for the best. Perhaps this is the biased view of old-school proponents of waterfall (such as this author), but the reality is precisely the opposite.

Agile requires more governance, not less."

Diane Schwarz

In order for agile to work, and work well, far more organization, orchestration and oversight is required than with waterfall. Agile is intended to produce results more quickly, by reducing the cycle time between when a customer states what they want and when they can evaluate whether or not what was built is what they need. With waterfall, your customer makes their best guess, you provide your best response and you both wait to find out if you were right. With agile, if you do it well, you constantly coordinate and collaborate with your customer to ensure that you both converge upon the right answer.

Effective agile is not a coding and release free-for-all. It is a rigorous, repetitive, rapid convergence upon the best answer available, guided by what you learn along the way. The faster a car drives along the motorway, the stronger the guardrails must be to prevent catastrophe. Getting agile right means having excellent governance, so that you can go farther, faster. Diane added: "Why do you have brakes on your car? To *safely* go faster."

The IT two-step

As adoption of agile grew and then stalled in the late 2000s, organizations struggled to understand why they weren't realizing the benefits that agile evangelists promised. In some instances, agile worked great – think building e-commerce sites, early forays into social media and building first-generation self-service portals. Yet in cases such as mainframe programming or ERP implementations, agile simply did not work. A different operating model was required; agile was not a one-size-fits-all proposition.Something was amiss, and when this occurs there's always a consultant or researcher with the answer. By the 2010s one such firm coined the phrase *bimodal IT*, another called it *Dual-Mode IT*, still others called it *Two-Speed IT*, and so on. Regardless of the label, this approach embraced the notion that IT should operate in two different modes, with two sets of processes, two speeds of operation and two different sets of expectations. One part of the organization leverages agile principles to deploy new, cool, exciting technical solutions as rapidly as possible. A second part plods along, maintaining legacy systems, keeping the disks spinning, and generally acting as digital plumbers. These people kept IT running, but clearly were not celebrated like their agile colleagues.

With one equivocal exception our participants were unanimous in denouncing bimodal IT as an operating model. Nearly everyone found that not only did bimodal not work for them, it caused them substantial dysfunction and undermined their organization's ability to perform. "We found that bimodal simply doesn't work. The initial results seem promising, but it fails when you try to scale it up," said Vijayanand Vadrevu of Novartis. This is entirely consistent with feedback garnered by CIO Insight, way back in 2016. Trying to make bimodal work was like trying to have a champion waltz dancer partner a champion shuffle dancer. The two have entirely different paces, entirely different tempos, and simply cannot co-exist in a productive way. Regardless of how good each dancer is at doing their own thing, they find themselves constantly stepping on each other's toes.

According to our participants, this is precisely the experience they had with bimodal. Their agile teams were viewed as tech rock stars, while their slower, maintenance-oriented coworkers were devalued, and knew it. Bimodal wound up being destructive to organizational cohesion, and only one of our participants felt it had obtained positive results from this approach (and even there, the results, while positive, were far less than anticipated).

Why has this approach failed so comprehensively? Our participants noted that operating two organizations at two tempos, with two sets of metrics and two required skillsets, created a competitive if not outright combative environment. This us-versus-them situation became self-reinforcing over time, leading to an extremely negative feedback loop, and greatly complicated management's job of maintaining operational harmony. And, consistently, our participants agreed that the so-called *Centre of Excellence* typically proved to be anything but excellent. As shared by

Diane Schwarz of Johnson Controls: "Centres of Excellence seldom live up to the name. Excellence is achieved wherever value is best created for the business, not just from a department with a superlative label."

Pioneers, Settlers & Town Planners: Right people, right place, right time

The key to fixing what is broken in bimodal is addressing the yawning gap between those who are rapidly innovating and constantly iterating to address new business needs and those who are maintaining infrastructure and commoditized, yet critical, systems and processes. The majority of our participants identified this gap fairly early in their adoption of bimodal, and some recognized that this gap had to be filled in order to achieve their desired outcomes.

The *missing middle* focuses on productizing, hardening, securing and making profitable those innovations that prove themselves through agile. It operates at middling speed, and emphasizes supportability, scalability and reliability. This is the process of moving from proofs-of-concept into full production – from a minimum viable product (MVP) to a realized-value product (RVP).

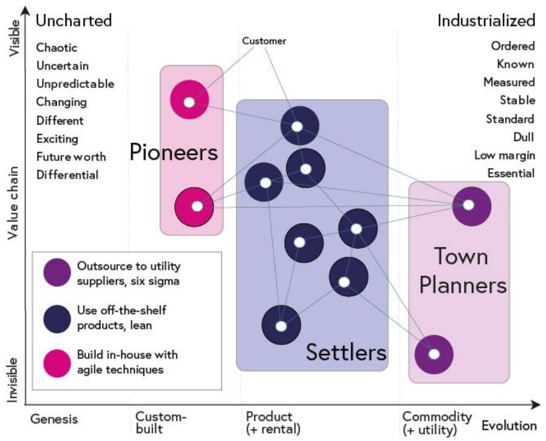
My colleague Simon Wardley defined such a model over a decade ago, inspired by his own experiences with failed bimodal. Simon refers to his model as the Pioneer-Settler-Town Planner model (PST), based upon the means by which people explore, conquer and then dominate new lands. Simon has discussed this model at length in his research, and I suggest you review his paper here for a detailed description of its history, rationale and execution.

Briefly, in this model *pioneers* are those who focus on creating new tools, functions and solutions. They innovate rapidly, following agile principles, and it's not uncommon (if they're any good) that they fail more often than they succeed. *Town planners* are those who are good at operating complex systems reliably, efficiently and consistently. They keep the lights on, often literally. *Settlers* are the missing middle of bimodal, the people who take new innovations (newly discovered lands) and carve out a living from them. They take a forest and create a town, or your new customer portal from proof-of-concept to robust, scaled-up, fully functioning and profitable platform. They understand how to take an idea and turn it into a system. They have a unique skillset, and according to our participants, they are rather rare.

Settlers figure out how to take a cool new

Settlers understand how to take an idea and turn it into a system. They have a unique skillset and they are rather rare."

thingamabob created by agile pioneers and expand it, build it, grow it and make it supportable. And that's where and when actual profits can be realized. Many organizations expect their proofs-of-concept to be profitable, and are disappointed when they are not. This is not a rational expectation, and leads to endless disappointment with technology implementations. But the better-performing participants noted that the delayed gratification that is supported by the PST approach leads to both greater and more lasting business benefits.



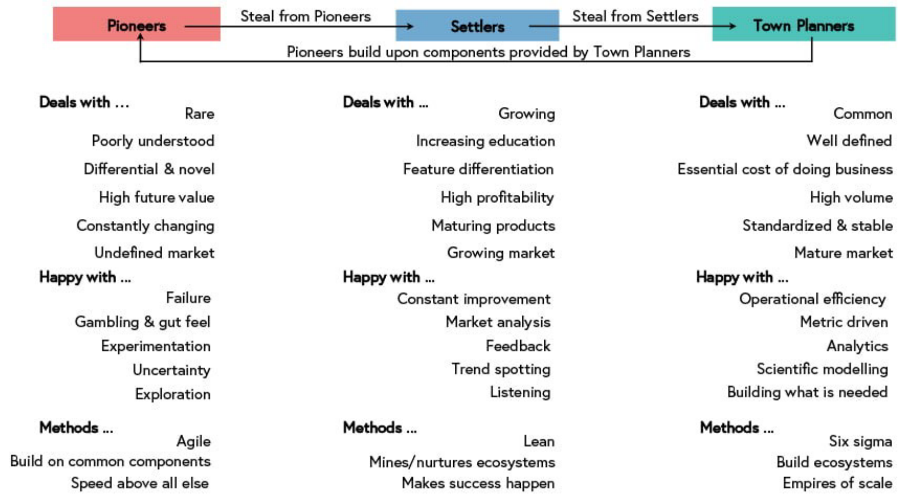
Wardley PST Model: Who & When

Those that succeeded in adopting this approach first identified people who could fulfill the settler role, and then empowered them to do so. Simon noted that these people needed both the *attitude* and *aptitude* to be a settler. I would add that they also need the *latitude* to do so. Having the ability and inclination to play a role is insufficient; one must also be empowered to play it effectively. This is where leadership comes to the fore.

Aptitude: Know your Pioneers, Settlers & Town Planners

If you embrace the PST model, who do you put where, what do they do, and how do they do it? Thankfully, Simon Wardley defined these characteristics, as shown in the table. Simon's research covers each in great depth.

Several participants recognized that the great evil in the world of IT, *rogue IT*, actually represents Pioneers at work. Many CIOs rage against rogue IT, business-led IT or credit card IT, where the business takes IT matters into their own hands and deploys new technical solutions without the help of (or interference from?) IT. The general belief is that business people are not sufficiently technical, don't understand the



Define the right roles, assign the right people

complexities of technology development and deployment, and generally shouldn't play in IT's back yard. Many participants noted that there is no shortage of arrogance in the IT community, and this feeds the business' appetite to go rogue.

But in the context of PST, these in-business developers are ideal Pioneers. They are not just close to the business, they're *in* the business. They likely know enough technology to be seriously dangerous in creating exactly what their business needs; at least an inch deep. It then takes Settlers to build the proper foundation and underpinnings for that solution to be supportable and profitable, and Town Planners to then optimize and commoditize it. The latter two roles are certainly IT-centric, but Pioneers need not be.

Latitude: Doctrine and the *when* of transformation

Success with this model depends upon more than just having the right roles; you must transition from one path to the others at the right times and with the right characteristics. Simon defined this as *doctrine*, summarized in the table.

A full description of Simon's doctrine is available here. In summary, before you advance a technical solution from one group to another, you must evaluate your abilities to *communicate*, *develop*, *operate*, *learn*, *lead* and organize (or *structure*). Ensuring each of these dimensions is properly understood, and at the proper level of maturation, is critical to delivering effective results with the PST approach.

Communication	Be transparent	Focus on high situational awareness *(understand what is being considered)*	Use a common language *(necessary for collaboration)*	Challenge assumptions *(speak up and question)*
Development	Know your users *(e.g. customers, shareholders, regulators, staff)*	Focus on user needs	Think fast, inexpensive, simple and tiny	Remove bias and duplication
	Use appropriate methods *(e.g. agile vs lean vs six sigma)*	Focus on the outcome not a contract *(e.g. worth-based development)*	Be pragmatic *(it doesn't matter if the cat is black or white as long as it catches mice)*	Use standards where appropriate
	Use appropriate tools *(e.g. mapping, financial models)*			
Operation	Manage inertia *(e.g. existing practice, political capital, previous investment)*	Optimize flow *(remove bottlenecks)*	Think small *(as in know the details)*	Effectiveness over efficiency
	Do better with less *(continual improvement)*	Set exceptional standards *(great is just not good enough)*		
Structure	Provide purpose, mastery & autonomy	Think small *(as in teams)*	Distribute power and decision making	Think aptitude and attitude
	Design for constant evolution	There is no one culture *(e.g. pioneers, settlers and town planners)*	Seek the best	
Learning	Use a systematic mechanism of learning	Learn by playing the game *(a bias towards action)*	Be curious and take appropriate risks *(a bias towards the new)*	Listen to your ecosystems *(acts as future sensing engines)*
Leading	Be the owner *(take responsibility)*	Move fast *(an imperfect plan executed today is better than a perfect plan executed tomorrow)*	Think big *(inspire others, provide direction)*	Strategy is iterative not linear *(fast reactive cycles)*
	Strategy is complex *(there will be uncertainty)*	Commit to the direction, be adaptive along the path *(crossing the river by feeling the stones)*	There is no core *(everything is transient)*	Be humble *(listen, be selfless, have fortitude)*

Attitude: The wildcard of transformation

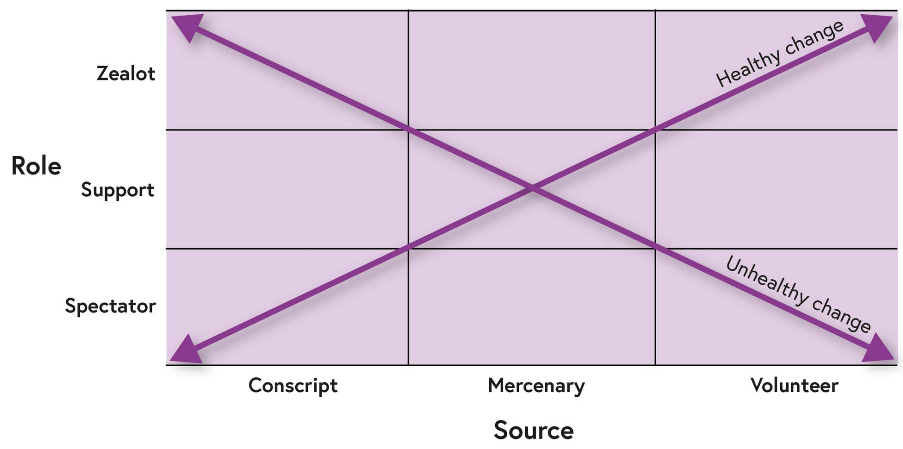
Aptitude and latitude are not enough; you must also engage employees with the proper *attitude* for what you expect of them. Indeed, attitude can often be more important than aptitude, particularly in transformational times. Change is hard, and rapid change can be extremely scary. The right attitude can make the difference between achieving breakthrough performance in difficult times and simply folding.

A majority of our participants noted that when reaching for breakthrough performance, finding and empowering the right people was perhaps the most important variable. So how do you do this? What are the characteristics of the right person to drive transformation – what drives them to succeed? And what happens if you pick the wrong person?

What matters here is the person's level of engagement: how dedicated they are to achieving the outcome you desire. The more engaged in the outcome, the more likely they are to achieve it. When people disagree with the outcome you are trying to achieve, they may actively seek to prevent it from occurring. You need to know who is who, and pick accordingly.

When reaching for breakthrough performance, finding and empowering the right people was perhaps the most important variable."

There are two dimensions to the question of employee engagement: source and role. The *source* reflects how the individual was brought into the effort or initiative; from whence they came. Their *role* describes the degree to which they are engaged, and their level of effort in driving towards their goal, if not yours.



Embrace change: Status & Role

To look at a person's source, consider soldiers in the military:

- Th*e conscript* (or draftee) was forced into the army against their will and would probably rather be anywhere else. Ask them to fight the enemy and they will likely not perform very well. Their goal is to stay alive. Winning battles is for others.

- *Mercenaries* are a bit more engaged, because they chose to be there in return for the pay. With sufficient financial incentive they might even win a battle or two, but the level of risk they are willing to take is tightly coupled to their level of compensation. That dead men spend no money is a thought not far from their minds when assessing the risks of battle.

- Finally, there is the *volunteer*, in the fight for personal reasons, motivated by something deeper and more fulfilling than money. Volunteers are the most likely to win the day in a battle, as many professional armies have discovered to their dismay.

A person's role represents their level of engagement once they've started to actually contribute to the initiative – or not. An individual's level of engagement, post-recruitment, is strongly tied to their perceived incentives. If they stand to psychologically win if the initiative wins, then they are likely deeply motivated and engaged. If they stand to psychologically lose if the initiative loses, they may be either tepidly engaged if things seem to be moving along swimmingly, or deeply engaged if the initiative is facing difficulties.

We identified three categories of engagement role:

- *Zealots* are the leaders of the initiative. They set the vector (direction and velocity) and guide the herd. This can be a good thing, if their vector matches that which your organization set for them, or it can be an exceptionally bad thing, if they're heading in a different direction – or worse, trying to stand still.

- *Supporters* are those who are a bit less engaged in the process, but they're still engaged. They contribute, once shown where and how, and help build the vector's momentum. Once the zealot chooses where to go, supporters are the ones who look around at everyone else, bob their heads in the zealot's direction, and fall in line behind them.

- *Spectators* wait and watch. Their participation is tepid at best, and they want to get a sense of the vector of the initiative before throwing their lot in with their colleagues. This is the herd that follows a leader, with encouragement from the supporters, regardless of whether it's good or bad.

To ensure that your goals – your vector – matches that of your leaders, it's important that your zealots are volunteers rather than conscripts. Why? Think of Hannibal and Spartacus. Hannibal led an army of mostly volunteers, and based upon their common goal, managed to overthrow nearly all of the Roman Empire. Spartacus led an army of Roman slaves against the goals of their masters, the Romans. In the view of the Carthaginians, Hannibal the volunteer was an amazing leader who created unbelievably positive results. In the view of the

Romans, Spartacus the conscript was an amazing leader who created unbelievably negative results. Winning and losing is a matter of perspective.

Zealots are leaders by their nature. But alignment of your vector to theirs is often tightly coupled to how those zealots were engaged in the first place. If they volunteered for duty, their vector will likely align with your own. But if they were forced to participate, you do not know in which direction their vector may go, and there’s a good chance it is not the same direction as your own.

Your efforts at digital transformation are not unlike warfare. The stakes are high, there are high risks and rewards; and training, equipment and strategy are all important. But so, too, is attitude. When you pick who will lead your transformation effort, volunteers are far better leaders than mercenaries or conscripts. Find first those who are dedicated to achieving this outcome, then ensure they have the aptitude, and give them the latitude to succeed.

Note that a sure sign that your efforts are running off the rails is if your most-engaged employees are conscripts or mercenaries. If those who appear most dedicated to the direction you are heading are those who have the least incentive, be forewarned. Your efforts are going in an unhealthy direction, and your goals are likely being subverted.

TIME: THE DOMINANT DENOMINATOR OF THE VALUE EQUATION

Organizations have been obsessing over ROI for as long as they've practised capitalism. Indeed, positive ROI is a fundamental underpinning of capitalism, which is why negative interest rates from central banks is a strong signal that something is amiss. While the expectation of positive ROIs is not going away any time soon, organizations that are achieving breakthrough results have recognized that a new basis of *value*, time, is driving their transformation initiatives.

The need for speed has been around for a while: remember when pundits predicted that Amazon Prime would never work and would be the death knell of Jeff Bezos? But the challenge now is that becoming faster is no longer optional. Companies such as Amazon and Uber have habituated customers to expect instant gratification in every transaction. Now, even if you do not directly compete with Amazon, you still compete with the expectations of speed it has created. Kevin Hunt, CIO of Spirit AeroSystems told us: "Speed to value is our most important metric now." Corrado Azzarita, CIO of Kraft Heinz, echoed this sentiment: "Your IT strategy timeline has to be at least as fast as your business strategy timeline; and preferably faster." This is even true in the public sector. Several of our participants are government entities and they too are feeling the need for speed from the citizens and constituents they support.

Kevin Hunt

Corrado Azzarita

You can't fake fast."

Why is speed so important, and so challenging? As many of our interviewees noted, unlike other aspects of how you operate, you can't fake fast. You can pretend to be cheap (think coupons or sales), you can pretend to care about your customers, you can pretend to be high quality, you can pretend to be socially aware. But you can't fake being fast; you either are or you aren't. As the pace of our world continues to accelerate, the definition of fast is a moving target, and if you aren't hitting it you're constantly falling farther behind.

If customers care about speed, it's often the deciding factor in their purchasing decisions. COVID has brought this trend to the fore. As more and more people are forced to shelter and survive in-place, more and more of their needs must be met remotely. When a need for something arises, they cannot go and get it, so it must find its way to them. Whoever can meet that need first is likely to win over someone else who is slightly cheaper but substantially slower.

Information has no value at rest, capital has no value in motion

Can fake price, quality, customer focus; can't fake speed

Successful companies are seeking radical improvements in cycle times & process speed … 50% reductions or more, in as little as weeks

Operation Warp Speed is on track for January, but prioritization is necessary, officials say

An HHS official said that the federal government hopes to provide free COVID-19 vaccines for every American.

Mallory Hackett, Associate Editor

Historically, organizations were less focused on saving time than saving money, because the one did not readily translate to the other. Doing things twice as fast didn't necessarily make it cost half as much. Indeed, doing things faster often was disproportionately more expensive. But in digital products and services, speed absolutely reduces costs and improves service. This is one of the strong rationales supporting the use of hyperscalers (see [A Cloud Journey to Deliver Business Outcomes]).

While the costs savings associated with going faster are not always obvious, it should be apparent that they do exist. It has been a common experience with automation technologies such as Robotic Process Automation (RPA) that hard savings in costs are rarely found, while extreme reductions in cycle time are easily realized. With RPA, it is not unusual to realize 90 percent or greater reductions in process cycle times. If an organization cannot translate that saving in time into either savings in costs, increases in revenues, or both, then it has other dysfunctions to address.

In many ways information is the opposite of capital. Capital has no value in motion; information has no value at rest. I wrote of this in my book, *Jerk*, and as an axiom it is standing the test of time. When a 'cheque is in the post' there is some question as to who actually has that money in their possession. If I've sent you the cheque, but you have not yet received it, have you truly been paid? There is sufficient ambiguity over who owns capital in motion that in the law we have created the *posting* or *mailbox rule*, so that there is some consistency in answering this ambiguity. Even so, unless and until you've received that cheque, and placed it at rest in your own account, there can be an argument that you both have been paid and have not.

By this example, a data warehouse is perhaps the worst invention of the last half century. Information at rest in an enormous repository represents little more than cost and risk. To be of value, it must be put to use; and the degree of value derived from information is directly related to how quickly it is put to use. Digital transformation, which necessarily entails *becoming data-driven*, means speeding up the rate at which you metabolize information; the faster the better. Those participants who report success with transformation agreed on this point, and reinforced its validity. They had changed their internal reporting from classic *business intelligence* (an epic oxymoron) – which reports on what happened in the past as a sort of digital self-flagellation – to *real-time* or even *predictive analytics* – which deals with the present and the future.

The degree of value derived from information is directly related to how quickly it is put to use."

Several of our participants are pharmaceutical companies that were directly engaged in the effort to create and produce vaccines. They have done so in record time, and shocked even themselves by how fast they were able to operate once time was in the denominator of the ROx equation. They acknowledged that delivering vaccines in one-fifth the normal time meant accepting greater financial risk – they began producing the vaccine in volume before they were certain it was effective and safe – but by valuing speed over financial returns they were able to operate at vastly greater speeds than if they had to worry about the potential financial losses of being wrong.

By valuing speed over financial returns they were able to operate at vastly greater speeds than if they had to worry about the potential financial losses of being wrong."

This is important to your own business performance, regardless of what business you are in. Frequently, slowness in an organization is a means of risk mitigation. Having dozens of approvals, reviews, meetings and so on, prior to making a decision, slows an organization down and reduces the chance that an unreasonable risk is taken. But what if the risk that you face is one of being too slow? Many of our participants noted that there was increasing pressure on their business to do things faster, yet their existing decision-making process was preventing this from occurring.

To be relevant in a digital world you must be fast. In subsequent sections we will discuss how you might go about achieving this goal.

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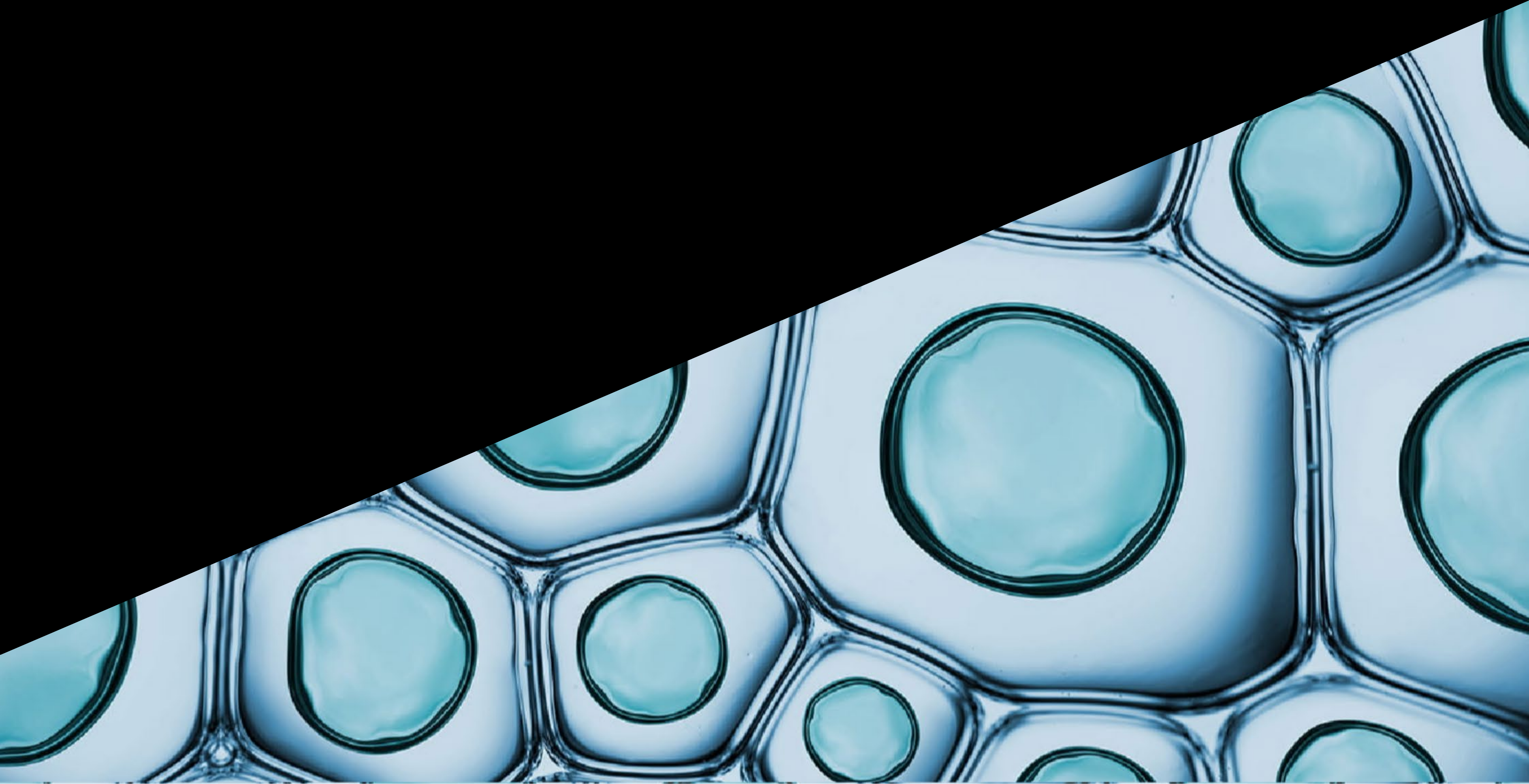
FLANK YOUR COMPETITION



Organizations that are transforming effectively have recognized that once you have transformed, you should be something that you previously were not. This seems obvious, but in fact it is rarely so. This aligns with the efficient, effective, explosive model, in that the results you will receive are largely dependent upon the degree to which you embrace change: are you doing things differently, doing different things, or making a difference?

Many organizations are trapped in a mindset of head-to-head competition with their competitors. They produce nearly identical products, and hope that marketing, celebrity endorsements and coupons will help them beat their competition. The problem is this: your competitors have exactly the same tools at their disposal. Fighting head-to-head with your competitors is a zero-sum game, and one with diminishing returns. Our participants who are successfully transforming are doing so not by doing the same things as their competitors but a little better. Rather, they are doing different things. They are flanking their competition and capturing clients that their competitors cannot or will not.

Diseconomies of scale & scope

The notion of flanking your competition ties in with the concept of *diseconomies of scale* [sic]. Diseconomies of scale flies in the face of Taylorism, which is based upon the idea of selling as much of something that you can, so that you can achieve economies of scale: to maximize utilization, your offering must be as average as possible so that the maximum number of people get at least some of their needs met. In traditional capitalism, being average is best. Hence, if you are seeking to maximize economies of scope, you should design your products to meet the middle of the normal distribution curve of customers' demands.

The challenge is this: your competition is doing precisely the same thing. They too are trying to meet the most average needs of the largest segment of customers, to maximize their economies of scale. The problem with this approach is that you're leaving a tremendous amount of value on the table. Half of your potential customers are not buying because you are offering more value than they are willing to pay for, while the other half are getting less than what they actually wanted and for which they are willing to pay. By treating everyone as average you are treating nearly everyone incorrectly. But this is how businesses ran for well over a century.

Is there an alternative? Yes, thanks to the ubiquitous customer data flooding our systems and platforms, which allows us to serve not a single market of billions of customers but billions of markets-of-one. We can efficiently and effectively meet the specific needs of each individual, and avoid the tyranny of mediocrity that Taylorism dictates.

For customers with below-average needs, we can remove features, functions or other value that they are not willing to pay for, and hence get them to buy at a lower price point. This may be less profitable, but as long as you achieve positive marginal returns, you're still better off than you were. At the other end of the scale, customers with above-average demands will pay you more to meet them, meaning you're harvesting value that was previously left on the table. And note that you have not abandoned the middle.

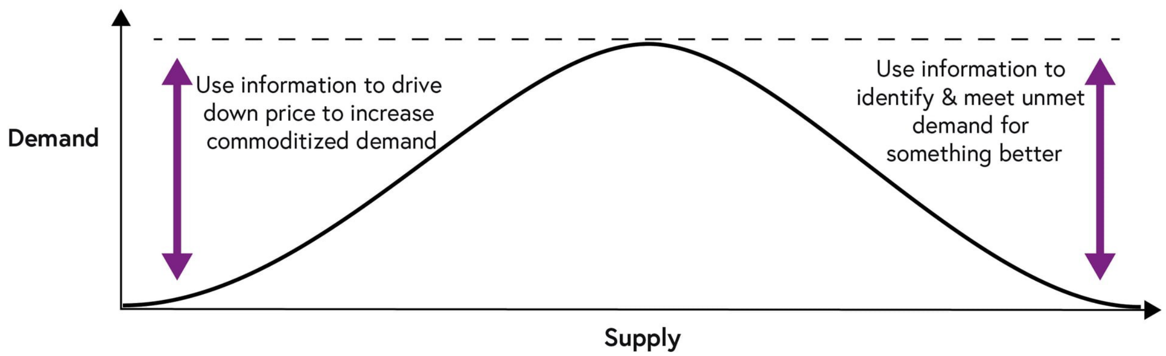
A public-sector example would be providing citizens with something they weren't expecting, something cool and value-added, that makes living in that particular jurisdiction more engaging, but not at the expense of not meeting another need. Now that geography is no longer a strategic differentiator, and is potentially an increasingly strategic liability, jurisdictions will have to be creative to keep people around and to attract high wage-earners/tax payers.

Critically, you circumvent your competition by going where they are not. You have added to your market share and profitability through being more nimble and better informed than your competition. Further, once you embrace this strategy and can deliver it effectively, it becomes self-reinforcing. Look at the spectacular success of Amazon or Alibaba and you can see the impact of effectively implementing diseconomies of scale and scope in action.

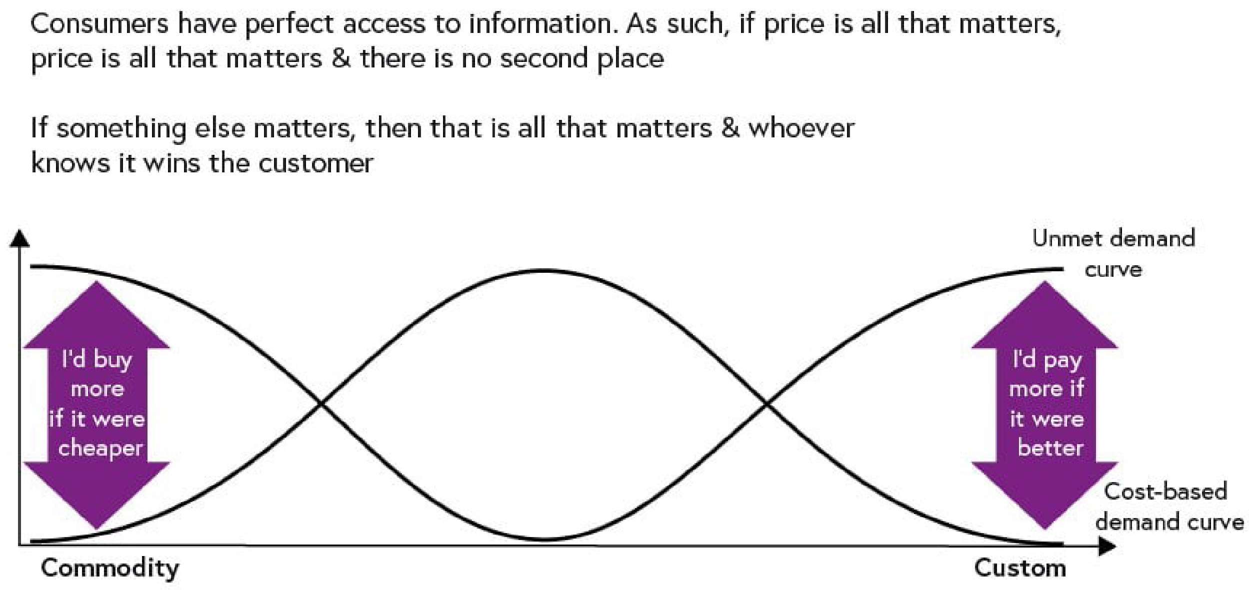
You circumvent your competition by going where they are not."

Research participants who are leveraging this approach are using information to disprove the notion that everybody gets what's most average because that's what makes me most efficient in its production. Instead, they recognize that they can use information to either further commoditize their commodities, or further refine their bespoke offerings.

- Taylorism is the religion of mediocrity
- Producing the most average products or services maximizes volume & hence minimizes average cost
- Transformation means doing Taylorism more emphatically, or doing what is not being done



Diseconomies of scale & scope



Polarization

The effective use of information also embraces the trend of *customer polarization*. Polarization is the result of customers having near-perfect access to market prices and availability, so they can find exactly what they want, at the best possible price, and enjoy it being delivered by drone within the hour.

As we have seen, in a polarized world, if price is all that matters, then price is all that matters and a competitor charging a penny less than you will always win and you will always lose. Conversely, if something other than price (such as time) is what matters to a customer, then whoever is able to scratch that itch will win the day. This ties in to the notion of selling more bits, more labels and more perceptions. If a customer demands gluten-free gasoline then whoever has 'gluten-free' on the label is going to end up in the tank of their car, almost regardless of price.

The key to leveraging polarization effectively is to know what matters to a customer, when, and give it to them in real time. Doing this effectively requires extremely fast metabolism of vast quantities of customer data, which means being a data-driven organization. This concept resonated with nearly all of our participants, who acknowledged that their customers are demonstrating these behaviours and demands on an ever-increasing basis.

Customers are demonstrating these behaviours and demands on an ever-increasing basis."

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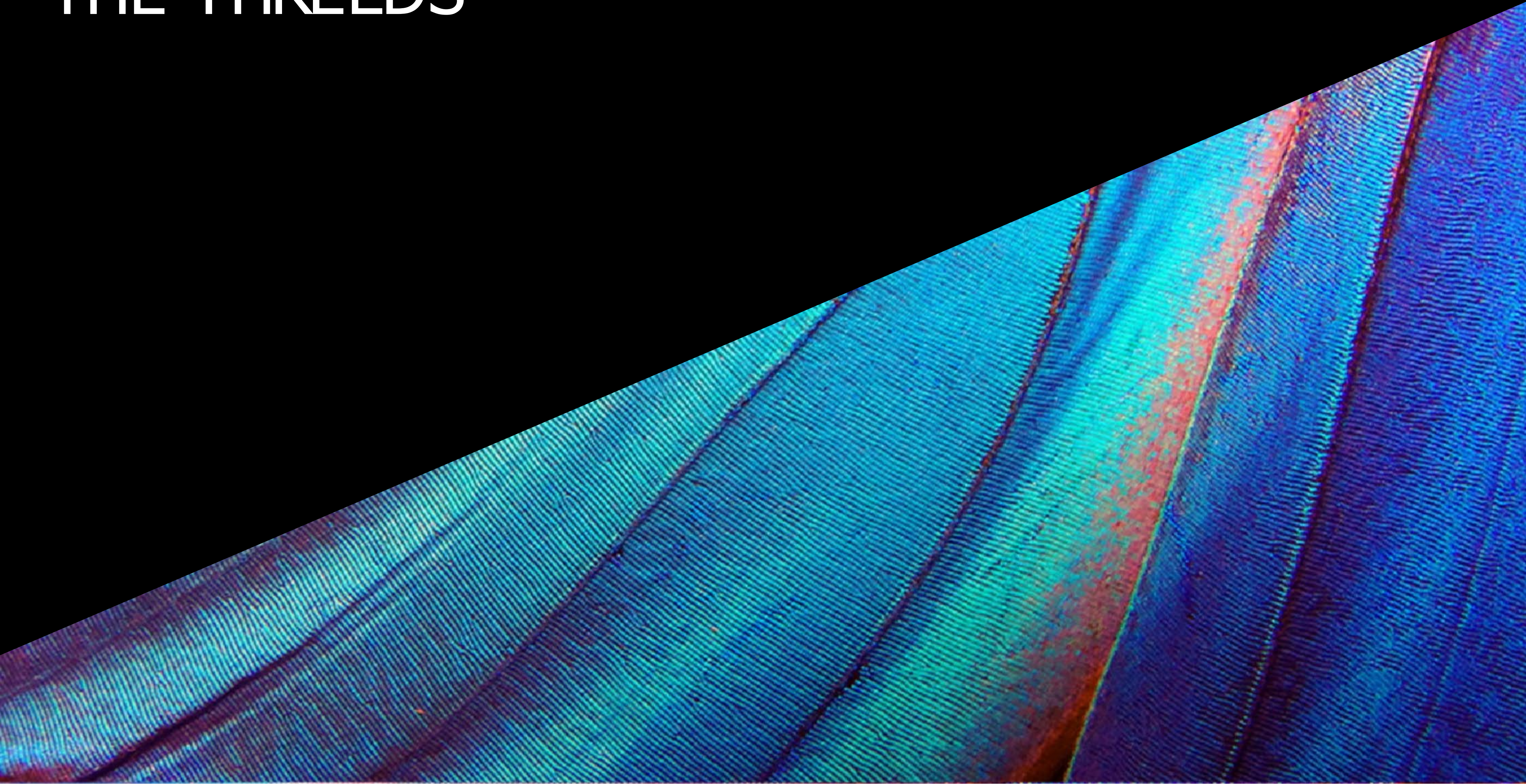
THE HOW OF TRANSFORMATION: THE THREEDS



As we undertook this research into operating models, one of our goals was to make the results actionable. We set out to answer the questions *what can I do tomorrow to get better results?* and *what can I start doing tomorrow to lead to this change in my organization?*

As we digested the feedback from our participants, three themes continued to appear with notable frequency. We call these the *three Ds of proactive transformation*, and they are as follows and they are as shown in the figure.

Direction: Where are we going, & what happens if we don't?

Participants who were successful at transformation all had this in common: their leadership provided constant, consistent and nearly omni-present communications about their change programme. They blogged, pod-casted, Zoomed, Skyped and used any and all other means of communications to constantly send their message throughout their organizations. Corrado Azzarita of Kraft Heinz said: "Tactics without strategy is the noise before the defeat; strategy without tactics is the slowest route to victory."

Direction	**Communicate need for change:** Constant, consistent communications Multimedia: Blogs, podcasts, Zoom, etc Carrot & stick: Benefit of change, costs if you don't
Dollars	**Fund the path to change:** People work on what gets funded Fund innovation & breakthrough thinking Expect & reward useful failures (aka learning) Do not concentrate all investments: spread it around
Data 010011 101001 000100	**Measure success along the way:** Disruptive metrics yield disruptive results Everyone can & should innovate Measure progress towards success, & distance from failure

Participants who were successful at transformation all … provided constant, consistent and nearly omni-present communications about their change programme."

Just as important as the mode was the message itself. Consistently, those who were succeeding stated that the message had to incorporate both the carrot and the stick of change. They emphasized the benefits of change, the great future they would all enjoy by taking the risk and making the effort. At the same time, and equally, they discussed the negatives that would be suffered if the organization did not make the change. In this way they could better break through the organizational and personal inertia that typically exists with any change initiative. It is not enough to hear that things might get better; the negatives if change does not occur must also be recognized. In our transformational world, there is no shortage of examples of both.

Dollars: Money talks

Second of the Ds is *dollars*, or funding in general. Leaders make clear what their priorities are and what they believe in by what they fund. An organization can state that it has a variety of priorities, but its true intent shows up in the budget process rather than the press releases.

Several participants discussed their organizations' adoption of collaboration tools, such as Zoom or Microsoft Teams, as an example of this phenomenon. Corrado Azzarita, Global CIO at Kraft Heinz, told us: "Our original plan for rolling out Microsoft Teams required nine months. When the COVID emergency hit, we completed the rollout in two weeks." When he asked what funds he had to complete the task, the CEO replied, "whatever it takes". (Ironically, the rollout was completed for less money than originally budgeted for the nine-month rollout. As we have said, speed saves money.)

We asked our participants how they managed their budgeting process, with particular emphasis on how they decided to make investments in innovation. The majority responded that a certain percentage of IT's budget would be set aside each year, and those funds would be used to make a handful of strategic investments in the given year. Inevitably, this approach leads to a technology beauty pageant, where the latest technologies are rolled out on stage to be judged according to their attractiveness. The winners (typically Artificial Intelligence, cloud or some kind of blockchain) get funded and go looking for a use case, while other contestants go unfunded for another year.

Is this investment in innovation (verb), or investment in innovations (noun)? Our research suggests that it is an investment in things, rather than approaches, and this is a far less effective means of innovating.

Organizations that usefully innovate (verb) might give every person with a budget a percentage to invest and a mandate to innovate, rather than holding an innovation (noun) beauty pageant with one or two winners. Then everyone would have the incentive – and latitude – to innovate, and innovation becomes a way of working rather than an annual event. This approach is consistent with, and resonates with, all of the other elements of operating models we have discussed. It presents an eminently implementable change in how organizations operate that will lead to meaningful changes in operations and attitudes across the business.

Maersk's Will Wigmore added his own parting thought: "Funding prioritization includes choking off the bad investments, not just paying for good future-proof investments."

Data: Aim big, miss big

The third D in this model is *data*, or more specifically *metrics*. We are in a metrics-driven world, and the metrics we focus upon, and how we use them, drive the vast majority of behaviours in our organizations. All organizations use metrics, but not all organizations use them effectively. Our participants who are succeeding with transformation have learned to used disruptive metrics in disruptive ways, and achieve disruptive ends as a result.

In the movie *The Patriot*, a father in the American Revolutionary War reminds his sons to *aim small, miss small*. The idea is that if one aims the gun at the side of the barn, a bad shot might miss the barn entirely; but if you aim for one of the hinges on the door in the middle of the barn, you might miss the hinge, but you'll certainly hit the barn.

While this principle works great for marksmanship, it works rather poorly in transforming organizations. Incremental change is easy, and most organizations have been incrementing for decades. Incremental improvement in metrics is a business religion, with Kaizen, six sigma and lean being some of the major denominations. Aim small, miss small is certainly at play here, as the incremental improvements are easy to achieve (and even easier to fake, as anyone who has manipulated Excel ROI models can attest).

Organizations that are transforming aren't aiming small; they're aiming big. The pharmaceutical companies who successfully developed COVID vaccines didn't do it three or four percent faster but four hundred percent faster. A successful insurance company transformed its processes by aiming for zero paper, and achieved it. A manufacturer set the goal of cutting its IT support budget in half in one year, and managed 90 percent of the target, with the remainder to come in another quarter.

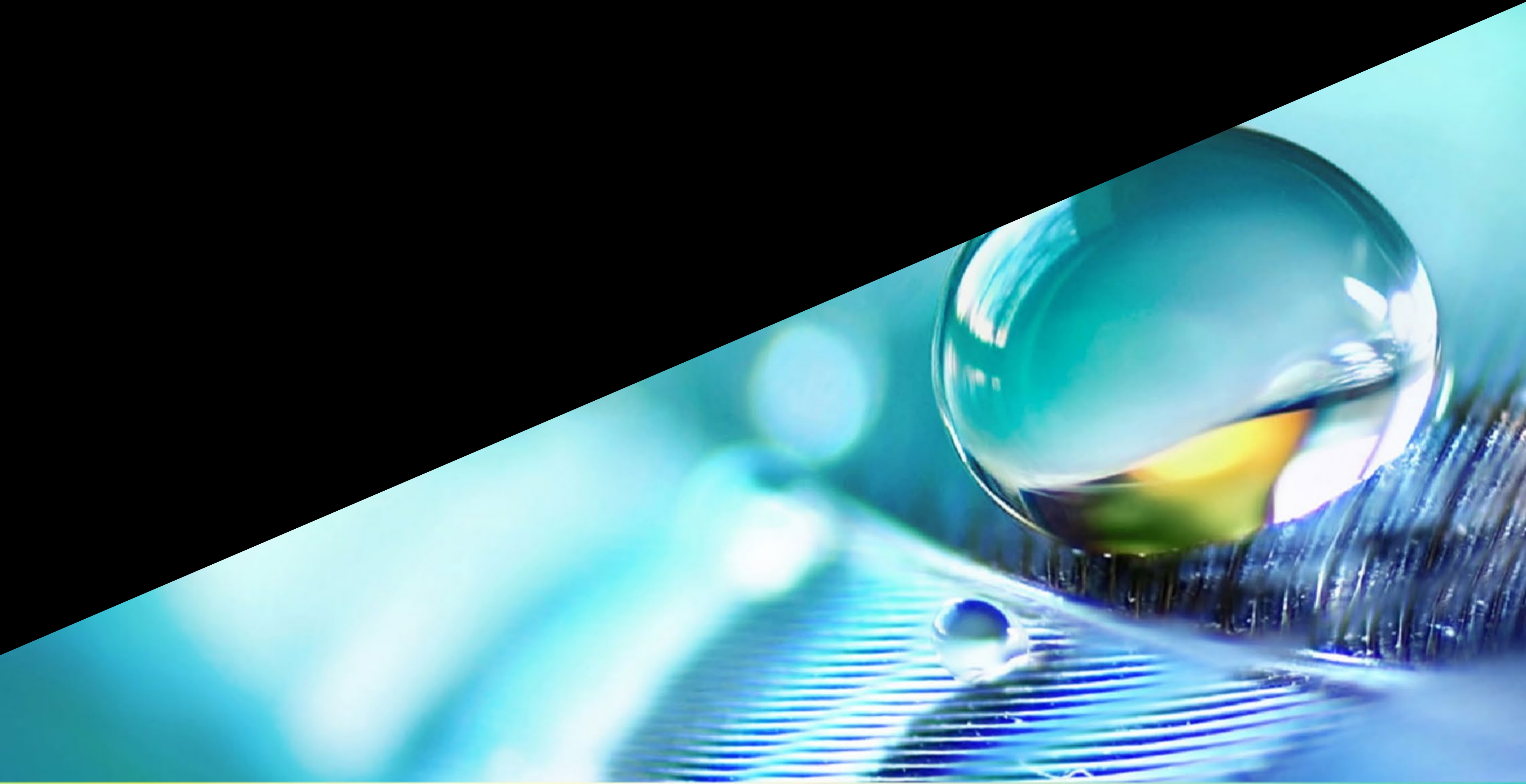
Organizations that are transforming aren't aiming small; they're aiming big."

This final example is the important one. This is the example of *aim big, miss big*. While it didn't achieve its goal, what it did achieve far outstripped what it might have sought before – a goal of five or ten percent savings. By aiming big it missed big, but received dramatically better results.

Such stretch goals are scary and they immediately bring doubt. Several participants reported how their organization responded to radical metrics: half of their people said "that's impossible," and they generally proved themselves right. The other half said "we can probably figure this out," and they too proved themselves right. Oftentimes, the conscripts and the volunteers conveniently choose their sides themselves.

So, to begin driving disruption and innovation into your organization, use disruptive metrics as one of your most effective tools. Combined with a compelling vision, and proper funding, you too can successfully transform your organization – as many of your peers in our research can attest.

CONCLUSION



No time like the present

The pandemic has thrown light on a wide range of challenges we are facing, as individuals, organizations and society as a whole. These challenges are what they are. We can spend a great deal of effort trying to understand them and rationalize them, but dealing with them is not optional; they are here and deal with them we must.

Our participants were unified in their view that we are now in a time of action; contemplation must take a back seat, if only temporarily. That is why we are so grateful to our participants for taking a short breather for such contemplation, so that we can record it and share it with you. The six key findings from this research guides their actions towards the changes necessary to respond to this changing world. These are, again:

1. Shift from atoms to bits.

2. Structure is largely irrelevant.

3. Know your goal.

4. Right people, right roles.

5. Time is the new denominator of value.

6. Flank your competition.

Follow these principles, using the three Ds of Direction, Dollars and Data, and you are likely to realize the same successes as our participants. But, as reinforced in a recent discussion with the CDO of a major insurance firm, “We must do then learn and stop learning, then doing.” Orient to action, and contemplate only after you have something concrete to evaluate, rather than to worry over.

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