

THE (IM)POSSIBLE TRANSFORMATION:

*how to transition a company
to a new operating system.*

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how to transition a company to a new operating system

In the world of management there are words that become fashionable and are suddenly used by everybody in almost any situation. This is currently happening with the new buzzword in business management – *transformation*. But what do we mean when we talk about transformation? Some people associate transformation with a company launching a digital activity, and, for example, communicating with customers online. Others associate transformation with the application of new technologies to production processes and planning.

Another approach is to understand transformation as the essence of a company strategy. This means transformation in big letters because it involves changing the organisation and its business model – from customer relationships to the internal aspects of operations, through to logistics and information systems. This *transformation* should be a matter for the CEO and senior company management, and must have the full support of the board and shareholders. From our point of view, this *transformation* of organisations must be a process that covers the whole organisation and be led from the top.

Is the transformation of an organisation possible?

The exponential growth caused by digitalisation is an external factor that companies must adapt to if they wish to survive. But the transformation of an organisation is an internal challenge, the top management have the levers and necessary resources to push those levers. There is no excuse: the process does not depend on others, or on any external factor. But many CEOs are asking how to implement a process of organisational transformation. Oddly,




What?!

many models and theories about strategy have been proposed, but there is little understanding about the transformation of organisations. This causes senior managers to be disoriented by the challenges of transformation. They understand the need to transform their organisations, but do not know how to do so. Some simply believe that it is an impossible task. We argue that transformation can and must be implemented.

Obviously, each organisation is a world unto itself, but we want to present four models that an organisation can follow to transform itself. These models will help managers discover that there are organisational options that help in the process of transformation. Transformation is a change process in which people are fundamental, and many of the people involved will need help in making a transformation. We want to propose that managers act as coach-





es who help in the development of key abilities in their organisation. Finally, we use the metaphor of the operating system to imagine the process of change that transformation represents for organisations.

HOW AN ORGANISATION CAN EXPLOIT AND EXPLORE SIMULTANEOUSLY.

Companies need to innovate in models and organisational designs. In recent decades, attention was focused on improving the efficiency of organisations, and designing organisations that could continuously improve. Now the challenge is to develop environments that facilitate exploitation: the search for innovations and new businesses. It seems reasonable to dedicate resources and organisational capabilities to exploitation and

so ensuring a company's current viability, while ensuring future viability by dedicating sufficient energy to exploration. But, as Professor James March points out: 'The difficulty in achieving this balance is that there is a bias in favour of exploitation with its greater certainty of short-term success.'

When a company makes investments in exploiting, refining, or enhancing skills and technologies, it can predict positive returns in the short term. In contrast, when a company invests in exploration, experimentation, and invests in risky new technologies and business models, the results are often uncertain and can be negative. The challenge for organisations in the 21st century is to overcome this dilemma and develop business environments where the company can simultaneously exploit current businesses and explore new opportunities.

FOUR MODELS TO TRANSFORM AN ORGANISATION

We are witnessing the emergence of many new models and organisational designs. These models tend to be bespoke solutions for each organisation, and are highly influenced by the size and age of the company, the sector in which it operates, and its technological level. If we focus on companies facing the challenge of transformation to adapt to a changing environment, we find common patterns that enable us to group them into four large models.

The first two models aim at transforming the company from the level of business strategy: through the creation of an *innovation lab* dedicated to transformation; or the creation of a network of volunteers to encourage new projects (*dual organisation*). Perhaps the first model is more internal (creation of a new

unit), and the second model is more open (creation of a network of volunteers), but both seek to transform the organisation from within.

The other two models see the company from the corporate level, and consider its transformation from the creation of either a new business division (*ambidextrous organisation*); or a new company (*start-up*). Both models seek to transform the corporation by separating current business from new business. The *ambidextrous organisation* model performs this in a more internal way by creating a new department; while the *start-up* model is more open and creates a new company.

1) The 'innovation lab' or centre of innovation is a unit dedicated to transformation

Within the current structure of the company. Some organisations have chosen

MODELS FOR TRANSFORMING A COMPANY

STRATEGY LEVELS

BUSINESS STRATEGY

CORPORATE STRATEGY

ORGANISATIONAL WIDTH	INTERNAL FOCUS	TRANSFORMATION UNIT (Lab or Centre of Innovation)	AMBIDEXTROUS ORGANISATION (Exploitation division and exploration division)
	OPEN FOCUS	DUAL ORGANISATION (Combination of hierarchy and project network)	CREATION OF NEW COMPANY (Start-up or M&A)



Coś, jakiego ma hobby?

Co go cieszy?

Wiek: 32 l.

to create a new department that encourages and helps transformation processes, while spreading the exploration virus within the company. To highlight its innovative character and willingness to experiment, some companies call this unit a 'centre' or 'laboratory', associating it with technology ('digital lab') or the development of new projects ('innovation lab').

Some companies have chosen to place their laboratory in the corporate head office, usually in a space with an unusual design; while other organisations place their labs outside of the business environment, near a university or entrepreneurial hub. In any event, the challenge is to ensure that the innovations produced by the laboratory are transmitted to the whole organisation, and help in the transformation of other company units. This transition is not always easy and requires a culture of cooperation between units. Open inno-

vation models such as 'design thinking' or 'lean start-up' are being used to involve key people from various company departments in the projects led by the 'lab' or innovation centre.

2) 'Dual organisation' combines hierarchy and a network structure for new projects.

This organisational structure aims to combine the current hierarchical structure of the company (oriented to efficiency and exploitation of the current businesses), with a structure in the form of a network of volunteer interdepartmental teams who explore new business opportunities, or technological innovations. According research by Professor John Kotter, this dual structure that combines hierarchy and network is an organisational design which has shown potential in encouraging and accelerating change processes in companies.

Various organisational tools have been put in place to try and capture ideas for new projects (idea competition or business challenges), as well entrepreneurial individuals who are willing to lead them (corporate intrapreneurs). The challenge lays in the connection between the two organisational systems and how to ensure that projects developed by teams of volunteers are transferred to the day-to-day company structure and consolidated within the organisational culture. Another challenge is how to encourage and recognise the effort and involvement of volunteers in the multi-departmental teams developing these new projects.

3) An ambidextrous organisation means that one corporate division explores while another exploits.

From the corporate governance of the organisation, the company is structured so that one division manages current

businesses by improving efficiency and processes, while another division explores and develops new businesses.

This structure is formal, rather than informal. The new business unit is not a support unit nor a centre, but a whole division dedicated to new business. The logic of this organisational model is the division of the company into two specialised groups for simultaneously exploiting current businesses and exploring new businesses.

This strategy has also been used by organisations to diversify and enter new businesses. The challenge for the corporate centre is to make the right strategic decisions in allocating the necessary resources so that each division can develop. In some corporations, the evolution of this organisational model has led the new business division to 'spin-off' as a new company within the same business

group. Various tools such as business incubators or business accelerators for new companies have been used by these divisions to capture new business ideas or develop them.

4) 'Start-up' or create a new organisation.

The top management of the company decides to create a new company to develop a new business. In this model, the new company does not wish to be integrated into the current organisation, and so avoids the risk that the new organisation will be absorbed by the old one. In some organisations, this has evolved into a corporate group structure (a holding company) with organisations in various businesses.

The formulas for participation in the new company can be diverse, such as industrial partnerships working with

entrepreneurs, or sharing investments with other investors.

Another possibility is to buy a controlling share in a small or medium-sized company in a more advanced stage of development and with growth potential (merger & acquisition). Within this process, the corporate centre acts as if it were a venture capitalist by evaluating projects, and making investments and divestments.

The challenge is to make a suitable selection and management of an investment portfolio to compensate for the levels of mortality suffered by new companies. For some other companies, the aim is to detect businesses in growing sectors that can replace investments in mature or declining sectors.



TRANSFORMATION REQUIRES MANAGING THE TRANSITION OF PEOPLE

Manage the fear of losing because of change.

If we have learnt anything about accelerated change over the last two decades, it is that success in any transformation is closely related to how the transition of the people involved is handled. Put another way, you can plan and execute a change (for example, moving from a branch-based bank to digital presence), and do so in an objective and purely technical manner; but the result can be failure if the transition is not supported by the people involved. This means that subjective viewpoints induced by transformation must be considered.

Change fails if the transition of everybody involved is left unmanaged. The differ-

ence between 'change' and 'transition' may seem subtle, but it must be clear in any transformation. In addition, experts in the analysis and management of this duality, such as William Bridges, tell us that the main problem in the transition of people is not, as we tend to imagine in a simplistic manner, a 'fear of change'. The main problem is a fear of *losing* because of change. Managing sadness, making the people involved understand that change will lead to improvements in their personal situation, is fundamental so that the transition of people facilitates a successful transformation.

FOUR SKILLS FOR ORGANISATIONAL TRAINING.

What must be considered to ensure a good transition of people in the context of the multiple changes we face? Given that the world is becoming more complex

(with highly diverse components interacting in an unpredictable manner), there is possibly no exact recipe for which actions to take to facilitate the transition of people and teams to the 'the new world'. But we are learning the importance of four fundamental skills from one of the most relevant transformations with the greatest impact on the immediate future: namely, the digital transformation (the conversion of all business into information systems oriented to a rapid response to individual demand as detected through a direct relationship with clients). Four fundamental skills should be learnt by all organisations, their teams, individuals, managers, and employees.

People, dynamic talent and abilities ecosystems.

First, it is necessary to design and learn to use new people dynamics. With this term, we aim to synthesise a combina-





tion of new techniques for detecting and recognising talent with new forms of team organisation. Organisations need people who know what their talent is, and how to develop it. The progressive transformations that an organisation proposes should be presented as an opportunity to better develop talent to achieve the shared purpose. In a world where intelligent machines will play an important role, having ‘very human’ humans, that is, people whose talents is in constant development, will be necessary to respond to transformations accelerated by the needs of the environment.

In addition, the ways in which people organise themselves into teams will probably change from being based on hierarchies to being based on the autonomy and empowerment of those closest to the decision points. Salaries must be adapted to the new situation: instead of simply measuring the ful-

filment of objectives (what has been done, how outputs have been generated) the achievement of purposes will be assessed (how has it been done, how are outcomes being secured). For example, the simple growth of a business unit (‘output’) should be analysed from the nuance of how the increase occurred, and how to ensure that the aims of the organisation are met (‘outcomes’). Growth achieved by new and innovative ways of responding to the market should be valued more highly than growth achieved by just selling in the same old way, and so putting future business in danger.

Focus on quick response to customers.

This is the second capacity needed to facilitate the constant and adaptive transformation of an organisation. Markets have gone from being mostly dom-

inated by supply to demand. Not even dominating a channel can today guarantee that your proposals will be accepted by customers, users, or consumers. Markets are saturated with proposals, as we live in an economy of excess. In this context, organisations should focus on understanding what people want, and what are their problems, needs, expectations, or desires. It is necessary to respond with proposals that offer people solutions that are perceived as valuable. An organisation’s capacity to respond to its clients adequately and quickly must be developed (using new tools such as neuroscience). It is thanks to the ‘digital revolution’ that we can give quick and personalised responses to large numbers of people. This is what Gothelf and Seiden have synthesised in the concept of ‘sense and respond’ (read the ‘sensors’ in the market and ‘respond’ quickly). Thus, to facilitate the transformation of an organisation in a demand-driven

environment, a culture of responsiveness must be developed. People must be shown that a ‘people-centred’ organisation focuses on responding to all the stakeholders involved, whether they be employees, clients, or the public.

Technology as a natural component of any value proposition.

To respond quickly to people, we must combine teams of enthusiastic professionals with the capabilities of technology. Today we have the digital technology to detect and understand, in real time, what people want or need, and to give them personalised answers, solutions, experiences, or emotions. Technology can no longer be thought of as belonging to the technology department: organisations are increasingly dependent on technology to fulfil their functions. Every action, every project, and every value proposition for the market is probably

facilitated by digital technology. Therefore, to ensure success in transforming an organisation into a highly technology-intensive environment, one must inject knowledge to all its members about the technological options. An organisation in which most members cannot ‘see’ the world from the viewpoint of technological opportunities, runs the risk of quickly becoming obsolete and unable to respond with value propositions that satisfy the market. Without an understanding of the transformative powers of technology being present in the minds of the members of the organisation, any proposal for transformation will fail, because the fear of being unable to adapt to the speed of technology will cause people to cling to outdated procedures.

New engines of value creation.

Finally, an organisation must focus on generating value for all stakeholders

(including clients, employees, shareholders, and society). An organisation must have mechanisms to ‘see’ what the market demands, to organise teams to generate proposals, prototypes, and products; and to ‘naturally’ integrate technology into these proposals, give answers and solutions, and generate results. Prototypes must be built quickly, lean teams organised, and systems developed in an agile format. An organisation will be unable to transform itself if cannot adapt its ‘business operating system’ to the new environment.

TRANSFORM AN ORGANISATION AND BUILD A NEW OPERATING SYSTEM

A computer is made of many interacting components, and the correct interlacing of these interactions is the role of the



operating system. A computer does not work because it has 'parts', but because its functionalities are connected. We can apply this metaphor to a modern organisation. In the typical hierarchy tree of an organisation, the 'parts' are departments, units, divisions. But its operation is not guaranteed by the existence of these parts. This is even truer in an organisation that must respond to modern market conditions, with customers who do not seek 'products' but who aspire to 'solutions'. In other words, when a permanent adaptive transformation to the environment is needed, the main function of the 'business operating system' is not to perpetuate the current portfolio of products and services ('doing things right', efficiency in output and exploitation), but to ensure that value propositions develop quickly alongside market transformations ('doing the right things', excellence in outcome and exploration).

Preparing the 'next generation' and training actions.

One of the critical questions is whether a 'conventional' organisation can change its 'operating system'. For example, can an organisation oriented solely towards efficiency in the production and sale of its traditional products transform itself into organisation whose main 'credo' is satisfying the needs of people, even if this implies the possible abandonment of a current but obsolete product portfolio?

In the same way that the operating system of a computer can be updated (with more recent versions), it is possible to 'update' an organisation by modifying its operating system. But in the same way that drastic changes in an operating system force the purchase of new hardware (because the old hardware cannot 'run' the new operating system), so profound changes in the business environ-

ment (the market) require radically different organisations (that is, operating systems). The long-range digital transformation that we are experiencing is a clear example of this: many conventional (incumbent) companies have enormous difficulties competing with emerging companies (which are founded with a different operating system).

Many companies are digitally transforming themselves – and with varying degrees of success. However, we believe that the survival of many of these incumbent companies depends on training the next generation of professionals (those who will 'inherit' the business) in how to use a new and different operating system.

This operating system will feature a combination of the four 'abilities' we discussed previously: an ability to respond quickly to the market (often in real time); an ability to organise inde-



NEW OPERATING SYSTEM FOR BUSINESSES

DO THINGS CORRECTLY



DO THE CORRECT THINGS

EFFICIENCY IN OUTPUTS



EFFICIENCY IN OUTCOMES

KNOW HOW TO EXPLOIT MARKETS



KNOW HOW TO EXPLORE MARKETS

INTERNAL ORGANISATION



OPEN ORGANISATION

THINKING DOMAIN



TINKERING DOMAIN

pendent and learning-oriented teams that work directly with clients on prototypes; an ability to naturally incorporate technology in proposals (without deferring from the outset to specialist system departments); and an ability to focus energy on client satisfaction (outcomes) rather than the achievement of objectives (outputs).

Diluting borders, breaking silos, and creating multidisciplinary teams.

This transformation means diluting the company's borders: the 'interior' and the 'outside' will be seamlessly mixed. Customers will also be part of the company, especially those who prove to be the best 'sensors' for real demand. Our suppliers will also become part of the corporate 'we', and our value chains will be interwoven through information systems built on global standards (today's

emerging platforms). Larger companies will become stars surrounded by satellite 'start-up' planets (apparently free in their trajectory, but protected by the stable markets of their home star). Each new opportunity will require the participation of people and departments who are today isolated in their silos, and so creating multidisciplinary teams. Collaboration with other companies will be the norm once we understand that the world is too complex to be solved in isolation.

From the domain of 'thinking' to 'tinkering': action-reaction.

We suggest that one way to facilitate the transformation of an organisation is to 'train' the 'heirs' in the principles, methods, and tools of a new operating system. The success of a transformation will probably turn the 'potential energy' of high growth professionals into a 'kinetic energy' that fuels the daily life of the or-

ganisation. To do so, an effective way may be to apply Kotter's 'duality' of operating systems, which is discussed above. In it, professionals work on a day-to-day basis within a conventional hierarchy aimed at being efficient in the current market (exploiting markets), but also voluntarily dedicate part of their time to changing the organisation for future markets (exploring markets). Therefore, it is not that the transformation takes place over the long term, but that the managers who will inherit the organisation begin 'inflecting' the organisation in its day to day operations with the concepts of the new operating system.

The criteria for evaluating a candidate should be modified. In addition to efficiency in the scope of their responsibilities, differential talents will be valued, as these talents may be definitive in an operating system based on the adaptive response to complex environments.

Uncertainty will be a common event, so creative, critical, and adaptive capacities will be highly valued. The transformation of the operating system will often require the combination (Σ) of different talents and abilities (∂). The management of all types of diversities will facilitate a transition in the transformation of the operating system. In the medium term, this will mean managing the rich diversity provided by millennials.

The training of the next generation, who must implement the transformation, is training in action. They must learn the new operating system by *doing* and *tinkering*, rather than *thinking*. The paradigm of the future is called action-reaction (the client wants, the company responds), and the fundamental mechanism for fine-tuning supply and demand is prototyping. This is learnt from the test-error process. The new operating system builds on the advantages of ex-

perimenting. Something that has been discouraged in business for a century, namely, small-scale experiments, is now becoming a fundamental element of the new operating system. No knowledge is generated without experiments, and without differential knowledge there are no value propositions to take to market.

A look beyond the digital transformation.

The rationale for our proposal – the idea that transformation is possible and requires the training of the company’s future generation in the new operating systems – may seem risky. However, the growing gap between incumbent and emerging forms of action shows that we are right. We believe that a conventional company should dare to change the operating system and establish a form of interrelation between the current management and the transformation

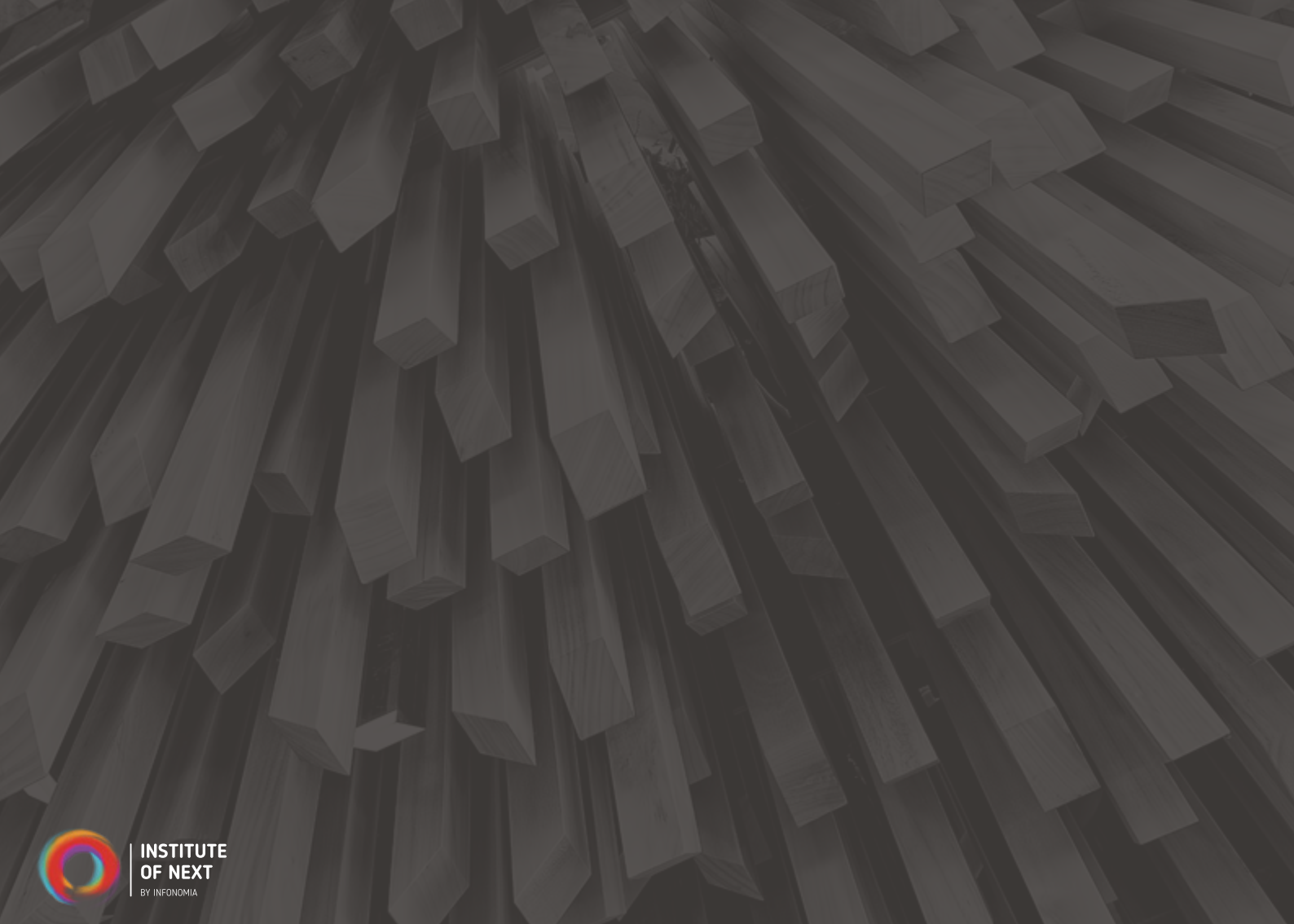
team (someone has even proposed that companies should have a committee of high-growth professionals advising the main board).

Digital transformation has shown us that the coming changes are enormous, and success in tackling them will probably depend on how the transition of people and organisations is managed. But, beyond the digital transformation, there is something hidden: the transformation of the operating system. Perhaps your organisation (the computer of our initial metaphor) has no choice but to radically transform itself to become competitive in an environment dominated by different operating systems.

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