



### ABSTRACT

Whilst it takes less energy to go with the flow, you will not get very far threading water. It is time to make waves by being brave and making bold decisions.

### AlfaSec Research

Digital Reflections –Being Real with Sustainable Strategies

## Executive Summary

Financial services organisations now operate in volatile, uncertain, complex and ambiguous (VUCA) environments. To respond to the new adaptive challenges that they now face, these organisations will need to be more innovative and agile in their approach. Despite the need for these changes, financial services organisations struggle with developing these required capabilities. The emergence of digital technologies will go a long way towards helping these organisations gain the ability to be more innovative and agile in servicing and developing new product capability for their customers. **However, the dilemma leadership in these organisation face when making the decision on digital investments is, invest in an enterprise-wide digital transformation program and risk failure, or fail to invest in an enterprise-wide digital transformation program and risk annihilation.** This is a challenging question for both boards and management of financial services organisation. This decision is not made easier when a study found that 72% of organisations fail at digital transformation<sup>1</sup>.

This is certainly a difficult ask of any financial organisation but not an impossible one. Many financial services organisations have commenced or at least are contemplating starting their digital transformation journeys. To be successful with this endeavour, leadership in financial services organisations must recognise this as an endeavour that encompass changes in people, process, and technology. Given the scope and expected effort, it will be a multi-year endeavour and the program will need to be led from the top of the house to be successful. In our report, we look at the drivers, challenges and elements required to be successful with this endeavour.

Boards and management of financial services organisations must first understand the drivers for digital transformation and the purpose for this significant endeavour. In our report, we discuss the drivers for digital transformation such as capitalising on efforts from covid-19, developing the organisation adaptability in rapidly changing times, continued demands for ever increasing regulatory compliance, protecting organisation's longer-term viability and sustainability, satisfying shifting customer expectations, building new systems and value chains, and improving returns on technology investments. We see that the rationale for digital transformation has never been more compelling and urgent.

Consequently, the board and management of financial services organisations must also be aware of the challenges that they could face when undertaking this digital endeavour. A critical requirement in undertaking digital transformation is the required shift in organisation mindset and practices. Organisations that have reported successful digital undertakings have achieved a shift in an organisational culture that is growth oriented and willingness to experiment,

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<sup>1</sup> Michael Gale, Jul 2019 "Think Going to the Moon Was Tough 50 Years Ago, Try Digital Transforming A Corporation Because 72% of Us Are Failing At It", Forbes Magazine, <https://www.forbes.com/sites/forbesinsights/2019/07/20/think-going-to-the-moon-was-tough-50-years-ago-try-digitally-transforming-a-corporation-because-72-of-us-are-failing-at-it/?sh=12104e336933> (accessed 19 December 2020)

learn and adapt. They have also moved away from plan driven to agile methodologies. In our report, we examine the difference between an organisation's heritage practices and the desired agile based practices..

In any digital transformation journey, the organisation will face challenges that are both internal and external to the organisation. Amongst the challenges that the board and management of an organisation would face are a misaligned corporate and digital strategy, a sub-optimal organisation culture, poor execution capabilities and impact of geopolitical developments on technology strategies.

Finally, in researching the efforts of organisations that have been successful with their digital programs, we have created a summary of the critical criteria for success. The following criterium must be ever present during the program.

- Compelling market and business drivers
- Enterprise wide alignment
- Clearly defined transformation strategy
- Well defined and flexible transformation blueprint
- Structured and focused execution strategy
- Strong and innovative enterprise culture
- Resource allocation plan aligned to execution strategy
- Securing appropriate digital competencies
- Effective and efficient governance

We discuss the practices and techniques that can be utilised to ensure that these elements are available. However, it should be noted that there is not "a one size fits all" solution for any digital program and the emphasis and focus on each criterion will vary between organisations.

We appreciate that each organisation in the financial services industry has its own nuances and circumstances but by employing a considered, practiced and dynamic approach these idiosyncrasies can be overcome, and success achieved.

Strategic initiatives fail not due to the strategy itself being poor but often due to underwhelming execution ability. Executions in many organisations are poorly planned, lack focus or generally under resourced. Whilst the use of agile methodologies will assist, it is not the panacea that some consider it to be. Financial service organisations are more familiar with plan driven program frameworks, leveraging their guard rails, status monitoring tools to manage and adjust pathways as required. Hence, any successful digital transformation endeavour in these organisations will rely on a hybrid methodology that is adapted to the individual organisation's situation and circumstance.

The advent of new technologies such as artificial intelligence, Internet of Things, 5G and quantum computing will reshape the financial services industry bringing new opportunities to both the organisations and their customers. There will be increased opportunities for automation and cross industry collaboration between providers. To be unable to capitalise on these opportunities could prove to be devastating to a financial services organisation.

We trust that you will find this report informative and we welcome the opportunity to discuss any challenges that you may be experiencing with your digital strategy and/or program. Please contact us at AlfaSec Advisors Pte Ltd.

## Introduction

In our second quarter newsletter in 2020, we highlighted that businesses would need to reinvent their business models following the pandemic as business environments have changed and consequently customer demands and expectations. To remain competitive, businesses must re-think their business strategies and practices. With advancements in digital technology, its importance as a strategic enabler has grown. The creation of digital offerings in organizations is now more prevalent as digitisation increases adaptability, quickens time to market deliveries, promotes innovation, enhances organisations ability to create value for customers and improves risk management practices. We then suggested that businesses review their investment approach and consider leveraging existing capabilities within their ecosystem to develop new solutions to satisfy customer demands. Speed to market is now more than ever a critical consideration for businesses, requiring a shift from traditional transformation approaches and instilling a new corporate culture that is flexible, adaptable, and quick to respond.

In this report we use “heritage organisations” to describe traditional companies in the Financial Services and Insurance industries that have longed offered product and services to its customer across the globe, operating in multiple jurisdictions. We also use the phrase “heritage organisation leadership” to describe these organisations’ board and management.

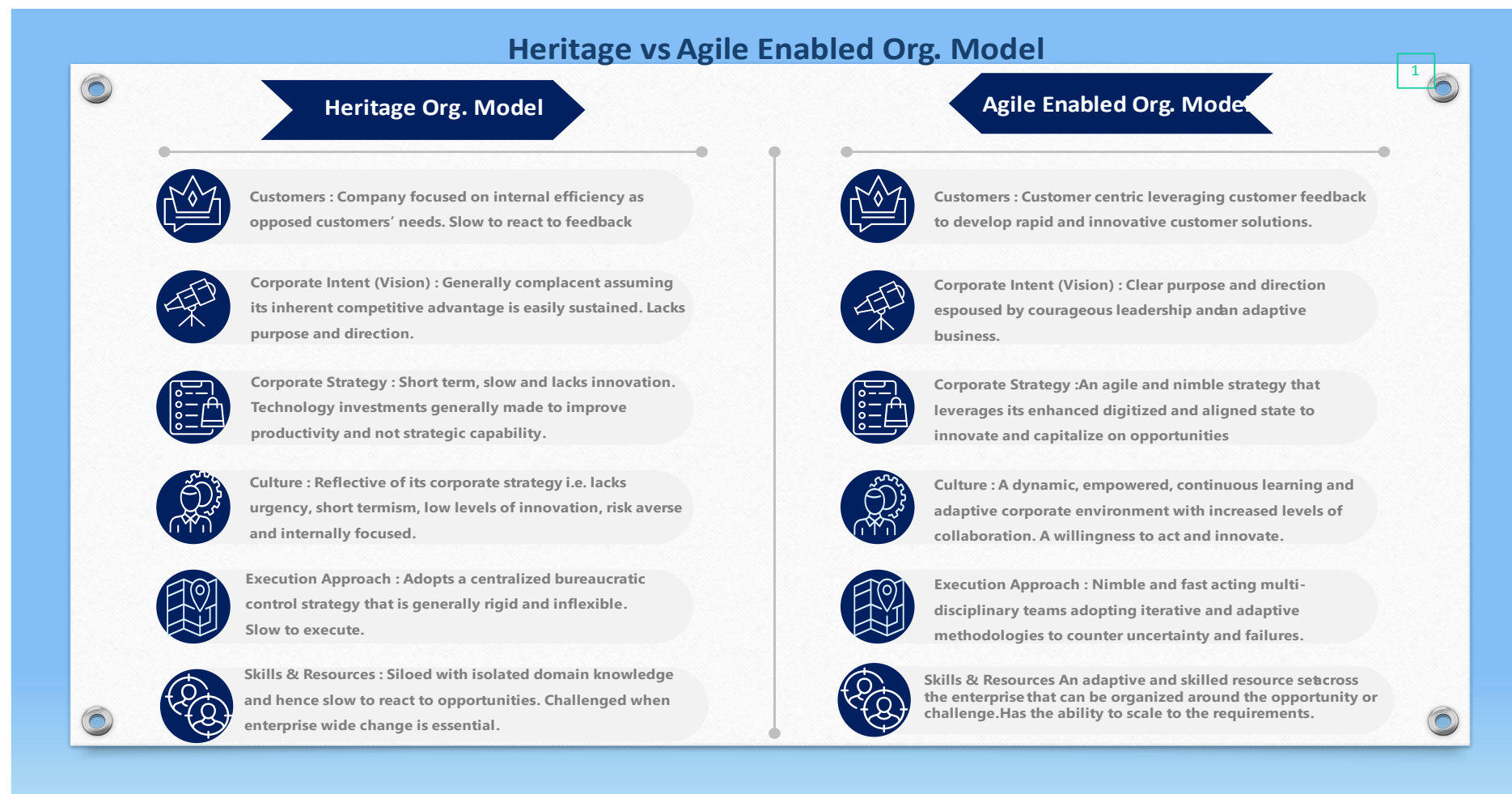
Unlike pure play digital organisations, heritage organisations have been slow in upgrading their business models and technologies over the last 10 years. Investments have been selective and often focused on initiatives that deliver efficiency benefits and/or margin improvements as opposed to being strategic in nature. Many of these investments have not been about addressing customer needs but rather about creating operating scale internally with the primary intent of increasing share price. However, client expectations continue to increase and are becoming more complex in this constantly evolving financial services environment. Correspondingly, adoption of digital capabilities within these organisations are on the rise but are they happening fast enough, and can they be effectively scaled across the organisation? Are these organisations ready and equipped to effect these necessary changes?

The other challenge that many of these heritage organisations face is their inherent slow-moving cultures, particularly evident in large multi-nationals. Common characteristics inherent in these cultures are the lack of urgency, short termism, low levels of innovation and risk aversion. It should also be said that these cultures are reflective of the company’s vision and strategy based on the classical “Be Big” approach. Functional siloed structures also tend to

create obstacles when dealing with enterprise-wide changes. These structures that have been created to establish operational scale and consequently reduce operating cost but fail to adequately react to changing customer needs and be able to capitalize on opportunities. What needs to happen in these organisations to transform their cultures?

The execution approach in these heritage organisations tend to also be bureaucratic, rigid, and inflexible, often leading to slow execution lead times. Due to the dynamic and fast changing environments that we operate in, long execution lead times often result in sub-optimal solutions being delivered as original requirements have changed. Also, due to the legacy practice of plan driven development methodologies, project execution risks only manifest themselves at the end of the project where the cost of remediation is significantly higher. The continued use of these legacy practices will continue to adversely impact the return on investments on these initiatives. What changes are required to improve investment decisions and execution rates?

The adoption of agile methodologies will certainly lead to better outcomes for these heritage organisations and we will discuss the reasons for using agile methodologies in the digital transformation process in the rest of the document. The table below highlights the differences in traits between a heritage organisation and agile enabled organisation.



## The Drivers for Digitisation

As a result of the covid-19 pandemic, there has been a reinforcement of and acceleration in digitisation initiatives across all industries. Some of these digital initiatives were driven by need to sustain business as usual, whilst others were more opportunistic in nature. The pandemic has created the need for increased digital interaction with customers and to facilitate new working conditions for employees. The pandemic had removed many of the bottlenecks that heritage organisations had previously faced and created new opportunities to collaborate and interact. The situation required functional teams to overcome silos and work towards the common goal of ensuring that business processes remained resilient. Hence, many heritage organisations have already demonstrated that they can be successful with their digital initiatives.

It is critical for heritage organisations leadership to capitalise on the digital momentum that was built. They need to continue to invest in and progress their digital strategies. As we had previously mentioned, whilst most of these pandemic driven successes were focused on client interaction and operational efficiency initiatives, they have laid the foundations for opportunities of new product creation or enhancement. Consequently, these initial successes, such as client interaction improvements, cloud migration, enhance data security measures, adoption of advanced technologies across the business, supply chain enhancements and modifications etc. are now the building blocks in a digital transformation program. Hence, the key is to capitalise on these achievements and embed them into their daily processes and not to revert to the old way of doing things once the pandemic is over.

The covid-19 pandemic has placed pressure on many heritage organisations to retain and grow revenue. Consequently, organisations needed to come up with better and improved strategies to navigate a rapidly evolving and often unpredictable business environments. Any prior belief that an organisation had about holding a leadership position in their respective industry or having a significant competitive advantage over its competitors will soon be severely tested as the race to reimagine organisations is well underway. When economies ultimately recover from the pandemic, it is inevitable that the new business environment will be different from the one before the pandemic. Heritage organisations must have the required flexibility and urgency to react to these new conditions and digital technologies will enable them to move faster. This is now a vital capability for organisations as the pace of innovations and disruptions within the business environments are becoming more frequent and the time lag between these events are rapidly diminishing. We see this with the advent of innovations such as micro investments, robo advisers, digital banking, peer-to-peer lending, new payment platforms, bitcoin etc.

On the regulatory front, headwinds continue to persist and possibly heighten. As an example, globally the data management practices for personal data are being tightened, necessitating review of existing data protection and security practices. Improvements are required in collection, storage and consent practices, and this is best addressed by leveraging new emerging digital technologies.

Heritage organisations will also need to evolve their business models to satisfy their customers shifting demands. Heritage organisations will need to not just implement new technologies but create new solutions to satisfy increasing customer demands i.e. it is not merely a technology play. Solutions for these new systems can involve the use of other stakeholders within or outside eco-system i.e. new third-party providers that sit outside the current value chain. This will provide the organisations time to market benefits, and/or the ability to potentially operate in new segments and/or to create new product and services. However, given the legacy constraints in heritage organisations, this could be a major strategic challenge as it calls for increased creativity when developing strategies for different plausible market scenarios – something that they have not had a great deal of success with, in the past.

Another critical change required in heritage organisations is a strategic shift in organisational thinking, where digital technology is valued as a strategic enabler and not merely as a productivity tool. Heritage organisation boards will now need to ensure that they have the appropriate digital governance experience within its composition and ensure that they do not have any decision-making biases by underestimating digital potential and/or disruption impact. Boards together with their management must also externally monitor and study current and emerging digital technology trends and engage with relevant digital experts. Effective use of digital technologies can deliver sustainable competitive advantage to an organisation through differentiation, cost leadership and/or improved opportunities to manage strategic risk. Furthermore, as competitive advantage is generally transient in nature, digital capabilities allow an organisation to be more fluid and dynamic in meeting the changes within the environment that it operates within.

Business environments that we currently operate in are rapidly evolving, where the pace of change outstrips our ability to learn and adapt. The ever increasing VUCA factors, pose significant challenges to heritage organisations as currently they are neither structured nor equipped to readily adapt to these new demands. However, with the aid of digital capabilities they can overcome them. The fast-changing nature of the environments brings with it a set of dynamic risks that boards must now assess and respond to. Boards in considering the strategic risks will need to consider if their respective organisations still have the ability to achieve their strategic objectives i.e. do they need new ways of dealing with these challenges as the current organisation capabilities are no longer sufficient. Some other considerations for heritage organisations are;

- conservative leadership practices and an absence of bold and dynamic strategies to take the organisation forward,
- constrained technology capabilities due to lack of investment and continued reliance on legacy technologies,
- legacy experience with plan driven methodologies creating false expectations amongst its leadership,
- existing organisational structures built for technical and not adaptive challenges, and
- cultures that fail to foster the “willingness to test and learn” and maintains a risk avoidance approach.

In considering the above, the boards should also consider the inertia of the required change, as by not acting on the need to change may pose significantly higher risk to the organisation’s long-term sustainability i.e., the choice to not do anything or moving too slowly can adversely impact the organisation’s risk profile. Hence, it is critical for boards to take a proactive and pre-emptive stance when dealing with this risk and look to remove the “speed humps” that are impeding the organisation’s progress in this regard and establish the required new resiliency and adaptability.

Digitisation can help improve technology investment strategies by ensuring higher returns. Historically in heritage organisations, product and service innovation have often been neglected due to scarcity of resources, with investments focused on less riskier options. The investment decisions in heritage organisations are often grouped into the following categories;

- complying with new or enhanced regulatory requirements,
- creating new or increasing revenue through product innovation and/or improvements,
- building capacity or capability to support projected growth from existing product capabilities, and
- improving operating margins by investing in operation improvements,

The first investment option being mandatory often requires little deliberation. However, with the other 3 options, heritage organisations must now determine the true value of each option in this more volatile and uncertain business environment. As an example, predicting growth is much more difficult, thus increasing the risk profile of that investment option. Digital capability can help organisations better manage its investment risk by prototyping and testing these forms of investments at a much lower cost than they would previously have been able to. Digitisation allows organisation to be flexible and nimble in dealing with these forms of adaptive challenges. Boards in heritage organisation will need to ensure that the investment processes for future technology initiatives are revised accordingly.

Hence we see that the imperative for undertaking or expediting an organisation's digital transformation journey has never been stronger as ;

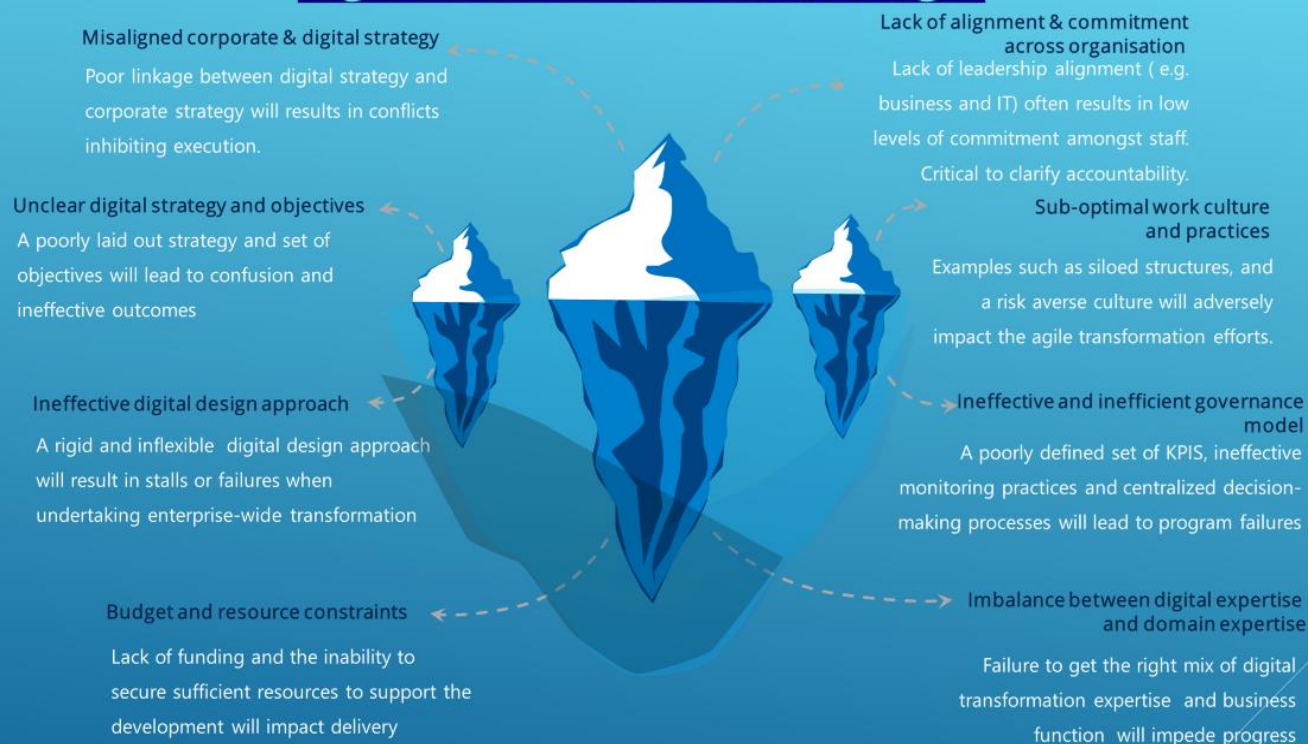
- helping organisation reinforce the value and benefits of digital technologies achieved during Covid-19,
- allowing organisation to build on their initial digital success during Covid-19 and sustain this newly discovered momentum,
- growing revenue and competitive pressures calls for increased organisational creativity and innovation,
- expanding client and regulatory demands calls for improved organisational agility and adaptability,
- Increasing competitive pressures require organisations to use digital technology as a strategic enabler,
- escalating risk dynamics in VUCA environments call for improved risk management practices,
- delaying progress in digital transformation can lead to organisational entropy, and
- improving technology investment strategies by increasing investment returns

Do you believe that you organisation is sufficiently focused on its digital transformation efforts? Is the investment adequate and is the investment being effectively utilised?

## Digital Transformation: A Maze of Challenges to a Rewarding Destination

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### Digital Transformation Challenges



Heritage organisations are inherently more adept at resolving technical challenges than they are at resolving adaptive challenges. The current environments they operate in are volatile, uncertain, complex and ambiguous (VUCA). Within this environment the likelihood of disruptive change that can rapidly invalidate business models is now very real. As a result, organisations are required to adopt adaptive approaches to resolve the new challenges that arise from these VUCA situations. In these situations, we see that the legacy organisational capabilities predicated on constrained strategic management practices, sedate decision-making processes, siloed culture, constricted mindsets, unexpansive investment policies, and capability limitations, hinder the organisation's ability to overcome adaptive challenges in rapidly evolving business environments. These new challenges require courageous, innovative, inclusive, nimble and resilient thinking by the heritage organisation leadership to overcome them.

The Digital Transformation Challenges diagram on the previous page, details the key challenges that organisations would face when moving forward with their digital transformation plans. Within this myriad of challenges, we noted that some challenges are more obvious than others due to inherent organisational blind spots. It is critical that these blind spots be identified and corrected and to do so, heritage organisation leadership will need to invest appropriate time and resources to detect them, manage the associated risks and overcome the underlying challenges. An external perspective can be extremely beneficial in assisting heritage organisations to uncover and address these challenges.

Risk awareness is the bedrock from which an organisation's board discharges its fiduciary, and duty of care and diligence obligations. To be able to fulfill its role in risk oversight, its challenge is to understand the risks associated with its digital transformation program. To ensure good governance, the board needs to take a proactive and considered approach in understanding these challenges and ensuring the underlying risks are being effectively considered and mitigated. In doing so, the board will have laid a sound basis to achieve the desired returns from its digital investments. Hence to achieve this, the board will need to ensure it has the relevant digital technology expertise in the organisation. Heritage organisations must ensure that they are developing the pre-requisite skills and knowledge within the organisation to sustain their new digital practices over the course of the digital transformation program. This will necessitate a change in skills and knowledge at all levels of the organisations starting with the board. Human resource practitioners will need to work with the organisation's leadership to develop corporate upskilling strategies.

Heritage organisation leadership should also bear in mind that the quest to digitise is a never-ending journey, and only through self-learning will it continually find better ways of doing things and create opportunities. The organisation's risk profile will evolve as the organisation progresses through its digital transformation journey and hence it is incumbent on the boards to continually assess the organisation risk tolerance remains within acceptable levels. They should also note that as agile execution approaches are based on empirical process principles, it fosters an experiment, learn, and adapt mindset. This mindset shift is central to any digitally transformed organisation. The ability to experiment, learn and adapt is the most simple and practical means of overcoming a volatile, uncertain, and ambiguous situation. This required change in heritage organisations will only happen if the organisation's leadership demonstrates vision, courage and strong leadership in effecting this change. They will need to accept that the failure is part of the innovation expense in any digital transformation program. The key is to fail early and learn from the failure, thus keeping the price of failure at an acceptable level to the organisation.

Another critical consideration for heritage organisations is the evolving face of geopolitical discord. With the on-going disputes between the major powers in the world, we are beginning to see the emergence of different models of technology development, commercialisation, and data use across the globe. This will potentially shift the underlying assumptions used by heritage organisations in developing their global system models. Heritage organisation leadership will need to maintain a close watch on the geopolitical implications on global technology practices and pivot as necessary.

Do you recognize these challenges in your organisation and do you believe that the required strategies are in place to overcome them?

## Digital Transformation – The Essentials for a Rewarding Journey

In this section, we discuss what is required to be successful when undertaking digital transformation initiatives. Based on our research we list the essential criteria that are needed for a heritage organisation to be successful. We consider the influence of agile and plan driven methodologies on the identified criterium, recommend certain actions that heritage leadership should take and raise questions for heritage organisations leaders to reflect on.

Heritage organisation leadership can shape their digital transformation approach for success by considering the following key questions.

- How should organisational culture evolve to achieve the outcomes as stated in the corporate strategy and program scope?
- How does leadership ensure that customer interest remains central to the program objective?
- How does the organisation's development approach shift from plan driven based methodologies to a hybrid approach predicated on agile development methodologies?
- How does leadership achieve an optimal balance between digital transformation expertise and business expertise?
- How does leadership institute a strong governance structure that is accountable, efficient, effective, performance focused and responsive?

An organisation's strategy outlines how it will create value for its stakeholders, customers, society and the environment. The development and on-going management of the organisation's strategy is one the board's most critical functions. In these VUCA times, strategy management is now an on-going, dynamic, and interactive process requiring continued board attention. Digital transformation is not just a technology play, but it is about incorporating digital capabilities with a new operating mindset to enable realisation of the organisation strategy. Hence, the digital transformation strategy and the organisational strategy are 2 sides of the same coin – digital and agile capabilities are to be interwoven into the organisation's DNA.

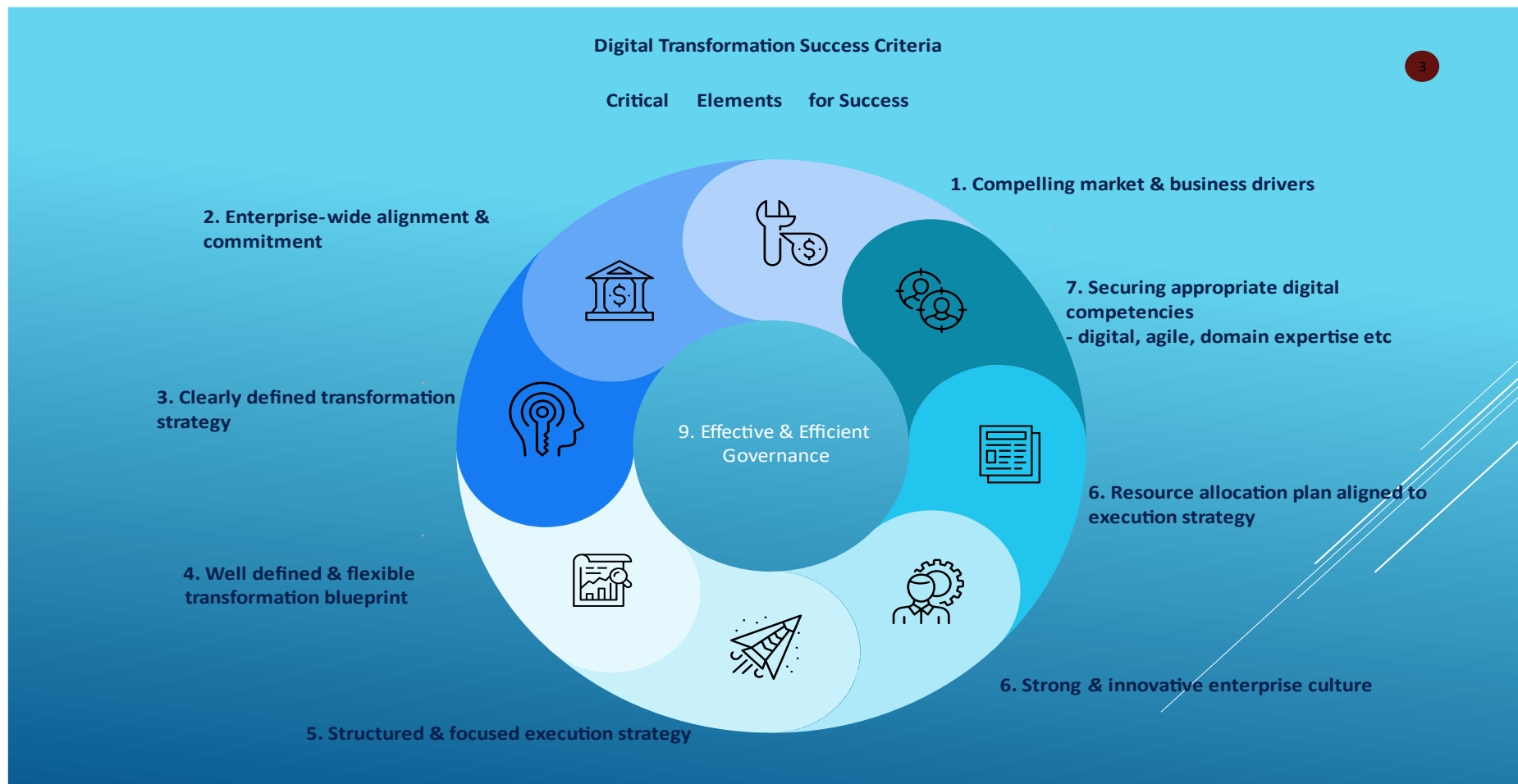
A classical approach to strategy development encompasses the following 3 phases;

- Strategic Development entails an environmental review and an organisational performance analysis. Also covered in this phase are alternative scenario and strategic pathways evaluations, risks versus rewards analysis, mission and vision creation, and values and goals definition.

- Strategic Planning entails outlining details of strategy and plan, resource requirements, metrics to be monitored (KPIs, OKRs etc) and skills and talent requirements.
- Strategic Implementation entails effective and efficient execution of strategy, monitoring for changes in the business and environment, and adapting to these changes as required.

The board is expected to play the lead role in the strategic development process with management leading strategic planning processes. Generally, boards and management have joint accountability for strategic implementation.

Incorporating the principles of the strategy development framework above, we will discuss the critical success factors for each of the phases. The diagram, Digital Transformation Success below outlines key elements that are essential to ensuring digital transformation success based on our research and experience. These criteria need to be present during the duration of a digital program and they have to be continually revisited – hence we have used a wheel to reinforce this cyclic requirement. As an organisation progresses through its digital transformation journey, the criteria will evolve with it. The approach that an organisation chooses to adopt in order to establish these criteria will vary due to the individual circumstances of the said organisation – there is no one size fits all approach. If an organisation, is already on the digital journey, it should review its situation against the wheel in order to determine any missing criterion and develop the strategies to address them. In the next section, we discuss each of these 9 criterion in further detail and provide some suggested actions for organisation leadership.



To facilitate the discussion of each criteria, we have correlated the strategic development phases with the required steps for digital transformation success,

- steps 1 and 2 are weighted towards the Strategic Development Phase,
- steps 3 and 4 are weighted towards the Strategic Planning Phase, and
- steps 4 to 9 are weighted towards the Strategic Implementation Phase.

## 1. Compelling Market & Business Drivers

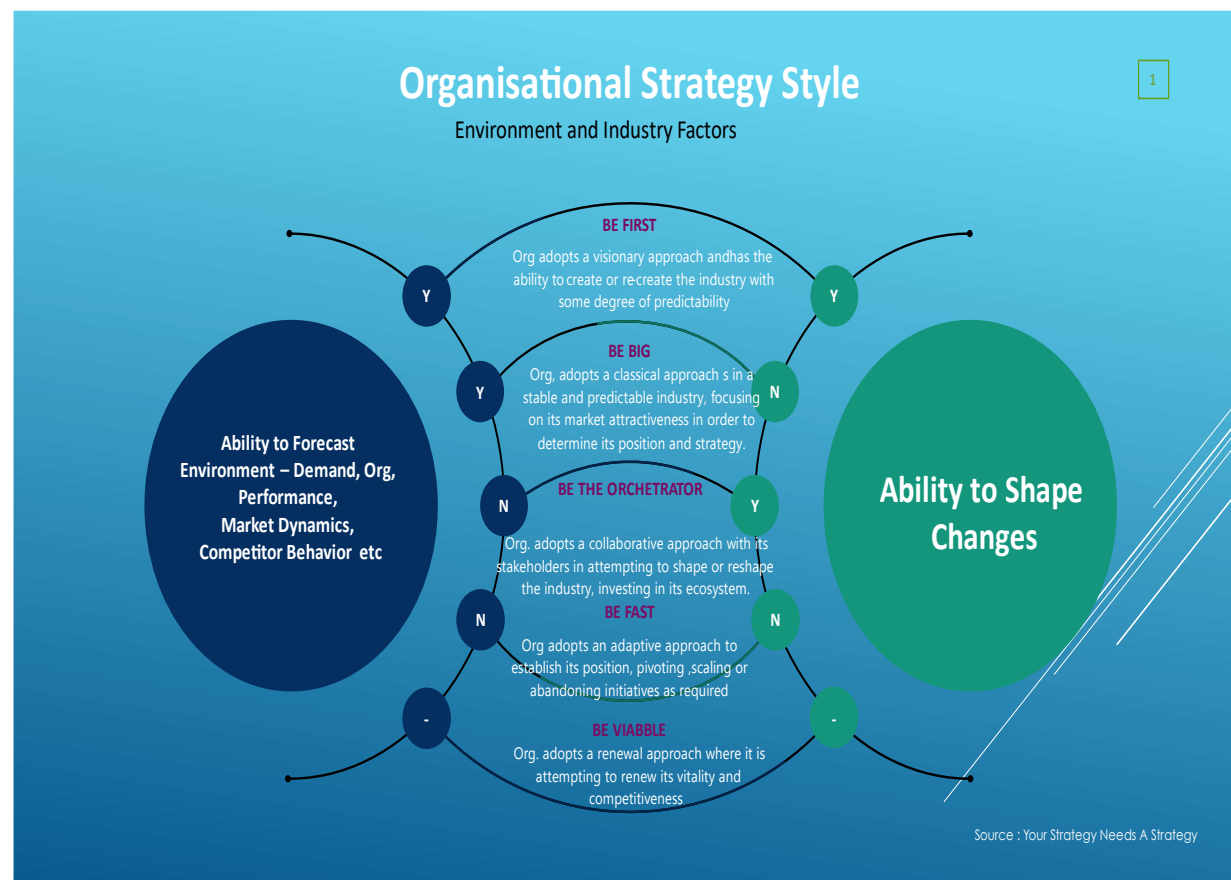
To enable change, we need to understand its rationale. Both external and business-related factors will influence the organisation's business strategy. An organisation's strategy will be influenced by external factors that are political, economic, social, technology related, competitive landscape, environmental, regulatory and legal. The following business drivers also influence, and determine the organisation's strategy:

- Enhance overall customer experience to retain existing customers and attract new customers.
- Create operational scale and lower operating costs by using omnichannel solutions (e.g. using one process to service multiple channels bringing a more consistent experience for the customer).
- Automate control frameworks and processes, enhancing transparency to strengthen governance and oversight capabilities (e.g. satisfying the increasing regulatory expectation on improved monitoring).
- Create new product capability, significantly reducing product development cycle time and increasing speed to market.
- Sustain competitive advantage (if it still exists) and future proof organisation against potential disruptions. Alternatively, develop the capability to disrupt the industry with its newly gained technology capabilities.
- Improve supply chain management and deliver increased benefits to customers by shortening the value chain.

The strategic assessment of the external factors is led by the organisation's directors in collaboration with its management. In assessing these factors, boards should determine the strategy style that best fits the organisation. The diagram, Organisational Strategy Style is based on the principles outlined by Reeves, Haanaes and Sinha, "Your Strategy Needs A Strategy" <sup>2</sup>. The board should determine the organisation's strategy style based on external factors when setting the strategy direction.

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<sup>2</sup> M Reeves, K Haanaes and J Sinha, 2015, Your Strategy Needs A Strategy, Harvard Business Review Press, Boston MA



In today's adaptive environment, boards and its management will need to recognise that the distinction between strategy development and implementation is not as distinct as it previously was. Many heritage organisations have developed multi-year strategy plans and take a sequential approach to implementation, first developing the strategy and then making the necessary investment decisions to execute against the strategy – the duration for these implementations is often long and drawn out. Many a time, we see these strategic initiatives stall and/or are abandoned when market conditions change and/or budgets over run – strategic initiatives failing due to changing business and market conditions. The business cases for these strategic initiatives were built on a set of static assumptions based on a planned driven framework of expectations. This approach was suited in legacy market conditions where it was less volatile and complex, and competitive landscape was less uncertain and ambiguous due to the absence of disruptors.

In the current rapidly changing environment, this approach is less reliable as it is much more difficult to predict a return that will withstand classical investment scrutiny. To avoid digital investment paralysis, heritage organisations will need to shift to a more dynamic and incremental approach to managing their project investment portfolio – they will need to be willing to experiment, learn and adapt. Instead of a sequential approach, the business strategy and digital transformation will need to co-exists and evolve simultaneously – assumptions used for digital cases needs to be periodically challenged and reviewed against the digital transformation progress The validated learnings for the digital transformation journey will drive the continued evolution of the business strategy.

It is incumbent on boards and management of heritage organisations to ensure that the necessary changes are made to the organisational practices to ensure digital transformation success. They need to constantly monitor and assess their business environments and dynamically adapt their strategies as required. Has your organisation's leadership made this transition in managing its strategy?

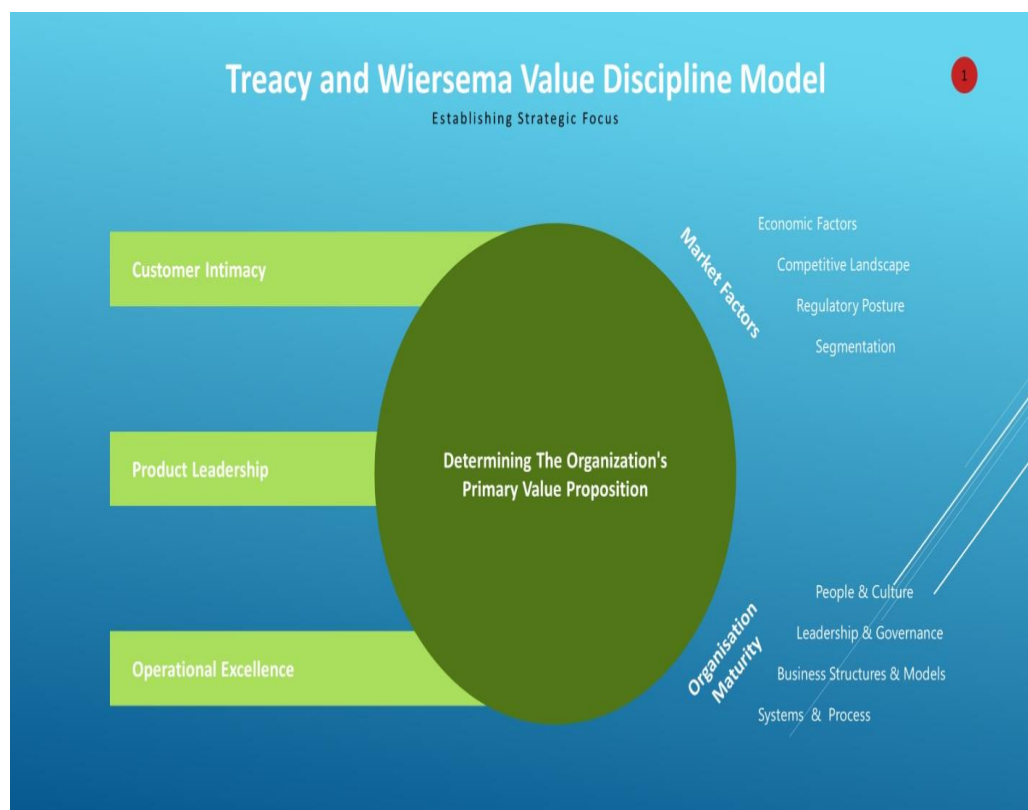
## 2. Enterprise-Wide Alignment & Commitment

As we had previously mentioned, the organisation's strategy and digital strategy is 2 sides of the same coin. Unless there is enterprise-wide alignment and buy-in on these strategies, the digital transformation program will not succeed. Ideally, the new digital capabilities are perceived as a strategic enabling tool that allows the organisation to reinvent itself, adapt to the evolving market conditions and ensure growth. Adoption of digital capabilities in heritage organisations will require some level of cultural change across the organisation. Board and management of these organisations will need to work together to ensure the necessary changes to the organisation's culture, structure, functions, and practices are realised. To strengthen commitment across the organisation, business functions within the heritage organisation must be sufficiently empowered and encouraged to effect the required changes. We will further discuss the attributes of the required organisation culture in "6. Strong & Innovative Enterprise Culture". The culture will be the glue that holds the organisation and subsequently the program together.

Another pre-requisite action required by heritage organisation leadership need to ensure enterprise-wide alignment and commitment, is the need to leverage and modify the organisation's core values to promote a set of fundamental and strategic beliefs for all staff. The following are some examples of these core value principles that should be instilled across the organisation;

- fostering a spirit of innovation and creativity by being bold and agile when undertaking challenges,
- demonstrating excellence by using deep customer insights to create innovative solutions, and
- collaborating with customers and partners within the ecosystem to develop best in class solutions etc.

Additionally, organisations need to clearly define and communicate its value creation purpose to the entire organisation. Based on the 3 value disciplines outlined in the Treacy and Wiersema Value Disciplines Model, the organisation can establish its value proposition providing context to the organisation's underlying vision and strategy.



Heritage organisations often strive to excel in all 3 disciplines outlined in the above model. Per the findings of Treacy- Wiersema, whilst it is not impossible to achieve, it is extremely difficult as the pre-requisite success criteria for one discipline (e.g culture, capabilities, structures & model etc.) will differ to the success criteria in other disciplines. The selected value proposition helps define the organisation's culture and value to enable organisational success. These values define the expected commitment and behaviour from people within the organisation.

It is the board's role to ensure that the entire organisation is clear on its purpose and its reasons for existing. This purpose will guide the strategy and assist with sustaining the long-term health of the organisation. Once the "why" has been established that the focus should shift to the "how" and finally the "what". As Simon Sinek's the Golden Circle<sup>3</sup> explains:

- "why" reflects the organisation core beliefs and purpose
- "how" reflects the way the organisation will fulfill its core beliefs, and
- "what" reflects the steps the organisation takes to achieve its core beliefs.

It is then incumbent on the entire heritage organisation leadership to live this core beliefs and purpose. They need to lead from the front and walk the talk to ensure enterprise-wide alignment and commitment i.e. they need to be aligned on the way its digital transformation program will enable the why, how and what. Those that are unable to accept these changes should be replaced. As an example, customer centricity is often cited as an objective in heritage organisation strategies and yet many customers still complain about their experience as they are left frustrated and annoyed by the disjointed services that have received. Introduction of new technology by itself, will not improve the customer experience if there is no enterprise-wide alignment and commitment to fulfill this strategic objective. The organisation will need to reimagine the entire customer experience from a fresh perspective and not adhere to limitations

[https://www.ted.com/talks/simon\\_sinek\\_how\\_great\\_leaders\\_inspire\\_action](https://www.ted.com/talks/simon_sinek_how_great_leaders_inspire_action) (accessed 16 December 2020)

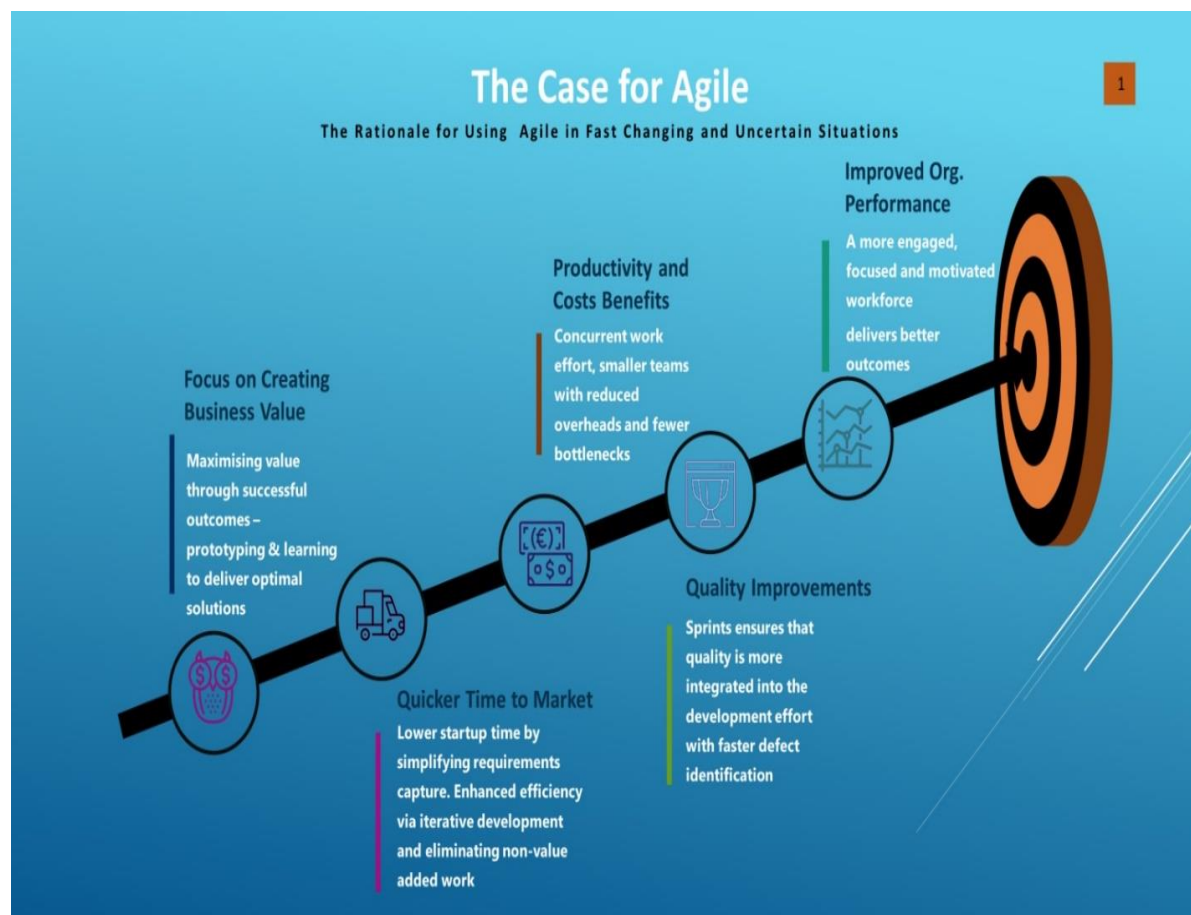
of its past and merely see responsibility lying solely with the customer service department. Instead, they need to leverage the newly available digital capability and modify their mindsets to shift the service paradigm to improve the customer's overall experience across the entire organisation.

Hence, we see the different actions that heritage organisation's boards and management can take to ensure enterprise-wide alignment and commitment to its digital transformation strategy. Is your organisation's current value proposition clearly understood and accepted by the entire organisation?

### 3. Clearly Defined Transformation Strategy



A clearly defined digital transformation strategy is multi-dimensional and reflective of the organisation's overall business strategy – 2 sides of the same coin. The digital transformation strategy will need to consider the required changes to organisational structures, organisational practices, policies, technology architectures, talent and organisational culture. This digital transformation strategy should clearly communicate the fundamental goals of the digital program and how they support the attainment of the overall business goals whilst effectively managing the organisation's strategic risks – a set of clearly defined objectives and expected key results (OKRs). It should also include the scope of activities, timings, and financial effects of each initiative within the program. When developing the digital transformation strategy, consideration should also be given to psychological and sociological influences as a strategy based purely on economic rationale will certainly fail.



The digital transformation strategy should also be critically examined through the 4 strategic lenses of design, experience, variety, and discourse to ensure its potential success as outlined in the Digital Strategy diagram on the previous page.

As mentioned, the digital transformation strategy will necessitate the adoption of agile methodologies. The agile methodology is more suited to solutioning in uncertain and rapidly evolving situations and hence suited when project managing individual developments within the program.

The diagram on the left, “The Case for Agile” summarises how the use agile benefits the digital transformation strategy. Adoption of agile methodologies does not come naturally to heritage organisations as historically there was little emphasis on continuous product development. Overcoming this bias will involve changes in the workforce mindset, culture, and practices. Proof of concepts and pilots are proven and practical ways of helping heritage organisations adapt to this new methodology by allowing it to experiment and learn from the experience.

The scope of any transformation should be clearly defined and be impactful. Heritage organisation leadership will need to be bold when setting its scope ensuring it is aspirational and will have enterprise-wide implications. The new digital and agile capabilities will become instrumental in ensuring the organisation’s sustainable growth in business, by giving it increased speed, flexibility, innovation, and adaptability. Members of the board will need to increase understanding of emerging technologies and the value they can offer to an organisation. Aside from leveraging these technologies to help the organisation transform, boards are also seeking to maximise its returns on its technology investment. Where applicable, it will look to the organisation to capitalise on opportunities to create new products and/or services via these new digital capabilities.

A successful digital transformation strategy will evolve as the program progresses and new technology advancements become available. Hence, a dynamic strategic management approach will ensure that the strategy remains relevant for the organisation. The heritage organisation leadership is accountable for this.

The heritage organisation leadership will need to clearly communicate the digital strategy to the entire organisation and ensure its understanding by the rest of the organisation. The organisation leadership must be singing from the same hymn sheet when evangelising the digital transformation strategy, thus re-enforcing the need for enterprise-wide alignment. They need to clearly articulate the merits of the digital transformation program and how it will impact the organisation strategy. This will require more creative and targeted communication strategies.

Does your organisation's digital transformation strategy contemplate the use of agile methodologies and is your current strategy capable of traversing the organisation?

#### 4. Well Defined & Flexible Transformation Blueprint

When establishing a program framework for the digital transformation initiative, it should begin with the agreement and definition of the major program deliverables and the associated high-level milestones based on the digital transformation objectives. These should be captured and reflected in a program charter document that will serve as the baseline against which future program level changes can be effectively tracked against. The charter is documented by the governance team (program manager) in close collaboration with the project teams and business. It should be approved by the program sponsor and subsequently maintained by the governance team.

The digital transformation program charter should incorporate the following principles.

- Set a simple and clear program direction.
- Focus on assumptions not forecast, regularly testing and validating assumptions.
- Adopt a hybrid framework – plan driven for program management and agile for project management.
- Identify resource requirements and timing early.
- Ensure organisational culture is aligned for program success.
- Establish and manage program priorities in an expedient manner.
- Continuously monitor, learn, and adapt.

The board is expected to ratify the program charter and must also be ready to support management in leading these changes. Given that this transformation initiatives are expected to shift the organisation's overall direction, it will be both challenging and complex. The board will want to maintain a view of the digital transformation progress and remain advocates of the program. Board will have to ensure active engagement with the program and accordingly manage

the expectations of the organisation's stakeholders. We will discuss how this can be achieved in section, "9. Effective & Efficient Governance". It is critical that heritage organisation leadership take full joint ownership of the digital transformation program. A common and often baffling practice by heritage organisations is to appoint a divisional leader to lead digital program on behalf of the CEO. This often results in failure as the appointed leader fails to take full ownership and maintain the need for continuous learning and subsequent improvements. The ability to sustain continuous learning and enable subsequent improvements are enterprise-wide capabilities, requiring buy-in from the enterprise leadership, often posing a challenge to the individual divisional leader.

Our research has shown that sole reliance on plan driven methodologies (e.g., waterfall), will certainly result in digital program failures and found that successful digital transformation programs use hybrid frameworks incorporating both agile and plan driven methodologies to enable their execution strategies. This supports the heritage organisation businesses need for some form of predictability and control, to support planning and decision-making process. These hybrid frameworks need be flexible by being tailored to the complexity of underlying initiatives. Consequently, project management approaches scaled to the attributes of the initiatives i.e. with simpler initiatives a lighter version of the plan driven framework is employed and vice-versa. The key point here is that as there is no one size fits all solution, each situation is assessed on its merits before determining the best execution approach.

Another benefit of this hybrid framework, the use of the plan driven approach at the program level facilitates the tracking and management of budgets, expenses, schedules etc. This will enable the heritage organisation leadership to fulfill their oversight responsibilities pertaining to the digital transformation strategy and ensure it remains on course. A poorly defined portfolio management framework can result in sub-optimal decisions and/or program delays due to capacity planning issues.

Reiterating the point that in this hybrid framework, development of underlying initiatives within a digital transformation program will utilise agile development methodologies and we will further discuss agile in the next section, "5. Structured and Focused Execution".

Digital transformation in heritage organisations will often involve solutions that are large, complex, and highly integrated. To minimise execution risks and uncertainties some amount of upfronts architectural planning needs to be undertaken to help reduce risks and uncertainties in design. The technical section of the program charter will outline the architectural and design principles of the program. This is based on the preliminary analysis of the baseline requirements. Whilst there is often an expectation of clarity of design and approach by the organisation's leadership due to traditional reliance on plan driven methodologies, this now creates a false expectation as there is an element of uncertainty and ambiguity in the preliminary set of high-level requirements. The architectural and design principles is expected to evolve over the course of the program i.e. blueprints will evolve as more learnings are obtained during the transformation journey. Proof of concepts and prototyping are effective means of assisting with the evolution of the architecture.

A clear, and efficient set of change management practices should be incorporated into the program charter detailing policies and processes for change management activities such as architectural changes and production releases. The processes need to be quick, safe and efficient, and do not introduce

unnecessary drag to the program's momentum. These policies and procedures must enable clear communication between program stakeholders and outline paths for resolution of problems or bottlenecks.

The program charter too needs to be adaptive as the program will learn from its experiences during the digital transformation journey. The learnings will result in modifications to the program approach and digital blueprint, thus regular and frequent review is essential. As change is inevitable, it should be expected, and relevant change management methodology agreed by all parties. Consequently, any significant changes to the program pathways could potentially impact the organisation's risk profile, and hence should be reported up to the board.

Is your organisation's transformation blueprint clear, concise, and evolving? Is your organisation effectively managing its evolution?

## 5. Structured and Focused Execution Strategy

The next action is to focus on the execution strategy of the program. Our research indicates that successful strategies are supported by carefully considered execution plan – strategies fail not because the strategy was bad but because the execution was poor. Here we discuss some of the attributes of a structured and focused execution strategy.

Per our earlier comments there must be enterprise-wide commitment and alignment on the execution strategy. There needs to be shared purpose across the organisation with clearly stated and accepted program objectives and OKRs.

Stakeholder of a digital program must adhere to the principle that this transformation initiative is a collaborative partnership arrangement based on trust between business and technology. This is unlike traditional waterfall-based methodologies where it was often treated as a contractual arrangement between parties e.g. as output is based on the requirements defined by the business at the onset and IT would not deviate from developing off these requirements unless it goes through some formal change control process. In an agile methodology, an incremental development approach based on the principles of experimenting, learning, and adapting is adopted. An over emphasis on adherence to program procedures will stifle the very qualities required to create value in an agile business environment. In any Digital Transformation program, innovation proficiency that is reflected in solutions that are both creative and adaptable are prized attributes of the program. Hence, it is critical to get the balance right between program control and innovative proficiency.

Consideration should be given the type of agile tools to be used to support development and governance activities within the program. Selecting an inappropriate tool can pose a significance hinderance to the execution progress if it requires significant manual intervention. This is an essential consideration when developing the program execution strategy.

When determining the program milestones it should be noted that these milestones are based on the high-level scope and requirements. When baselining the execution strategy consideration should be given to the following;

- requirements capture scope vagaries as the devil will be in the detail,
- program cost and schedule uncertainties due to the lack initial detail,
- stakeholder interaction challenges within the ecosystem due to lack of alignment, and
- skills and capabilities shortfalls due to nascent digital adoption practices impede program execution.

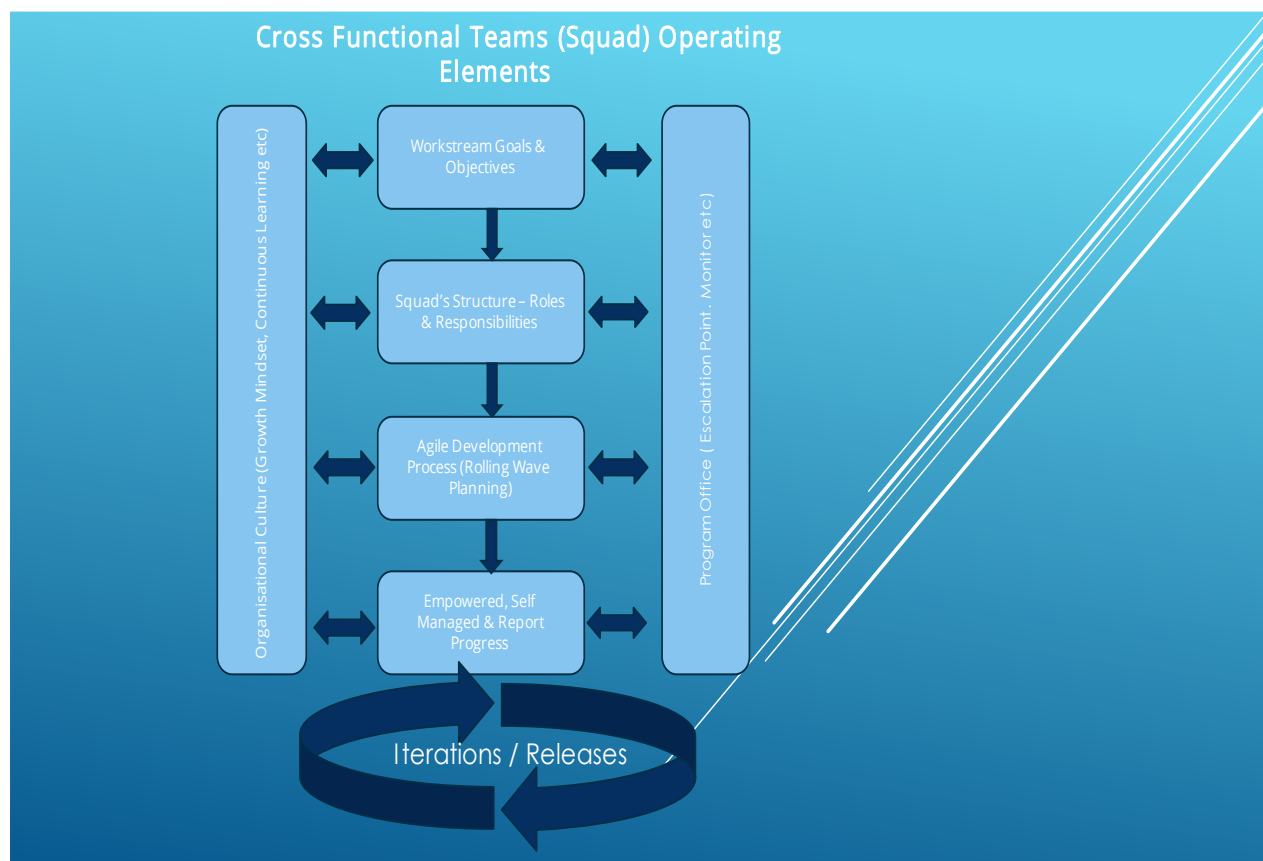
Heritage organisation can consider enlisting external support, especially if the internal team lacks experience in building a digital transformation plan.

To enable rapid and collaborative development, cross functional teams or squads consisting of staff with different functional expertise working together should be established. The team will be responsible for defining, developing, and testing solutions. To increase throughput, it is recommended to have multiple teams work concurrently on different solutions. Each team must be empowered to make decisions based on an agreed decision framework that is established by the program office. This framework will allow for cross functional decisions pertaining to the solution to be made in a collaborative and expedient manner. Other stakeholders will be engaged as necessary (e.g. sponsors, business users, customers etc). Product owners should also be identified to manage the priorities and sequences of development features and they also act as the conduit between business and customers. More importantly product owners are tasked with sustaining the vision and goals of the solution.

Large complex digital transformation efforts will require a robust program management structure to ensure coordination and communication amongst the teams (squads). The primary objective being to ensure that the efforts of the teams are synchronised and consistent with the objectives of the program. The program management function is also to ensure that other stakeholders within the organisation are kept apprised of progress and are involved in integration and production release efforts as required. These efforts may sometime involve stakeholders that are external to the organisation.

An expedient digital program execution strategy will utilise a rolling wave planning approach, progressively elaborating on requirements as the program progresses. This supports the rapid development objective as it expedites the upfront planning processes and calls for requirements to be defined when and as it is needed, thus allowing for improved integration of the requirements into the design process eliminating potential misunderstanding of requirements and/or translation issues pertaining to the requirements.

The other key feature of this execution strategy will be the adoption of an iterative approach when developing solutions. This allows for quicker development as the solutioning activities overlapped and/or run concurrently. This also allows for earlier detection and correction of defects, strengthening the quality of the solution. These factors contribute to quicker realisation of benefits, improving ROIs as cost is significantly reduced as compared to when a sequential development methodology is utilised.



The program can subsequently be organised by workstreams if the scope is significant. As we had previously mentioned the teams should be assembled to work on each workstream. For maximum effectiveness, the team sizes be restricted to a relatively small number, ideally no more than 8. Specialised resources can be centralised and assigned to the teams as and when they are required.

Within each workstream, the work should be organised by releases and iterations to accelerate delivery of features within the solution. The delivery of these features should be prioritised and agreed by the team and the objective being to enable capability within the production environment in an impactful and incremental manner. Aside from delivering value to the business in a timelier manner, this approach also helps with maintaining focus and motivation to complete large complex initiatives. Responsibility for execution of the releases and iterations will be jointly owned by

the team members and will be conducted in accordance with the principles of the framework outlined in program charter. The team will track its project milestones, reporting progress to the program sponsor and governance teams.

Release planning will involve organising features, establishing schedules required and resolving for any potential obstacles. For more complex initiatives, the releases maybe broken down into iterations delivering specific set of functionalities as specified by user, allowing for targeted feedback and input. All iterations within a release are to be completed before the release is promoted into a production environment. Best practice suggest that iterations are time bound to establish cadence within the team. If there are significant uncertainties identified during the release process, then a 'special' iteration session should be planned to discuss resolution of this uncertainty.

As a progressive elaboration approach is being utilised to manage and gather the requirements, joint sessions between team members and stake holders are held to agree the vision for the solution and its high-level features. As part of this assessment, additional consideration should be given to evolving requirements in uncertain and volatile situations and allowances made accordingly. For example, the team may consider de-prioritising solutioning for these requirements until they stabilise. Prototyping can also be used to assist requirements capture in complex and ambiguous situations. The team should agree upfront, the approach to best deal with evolving requirements. Captured requirements are subsequently fed into release and iteration level planning processes. With complex initiative, the use of appropriate agile development tools is encouraged, as they help streamline the planning efforts, allowing teams to make more productive use of their time. The other benefits of using agile tools include the ability to break requirements down to task allowing for improved effort estimation, managing team workloads to maximise efficiency, facilitate collaboration, creating execution blueprint etc.

Ultimately, any execution strategy needs to be tailored to the organisation's situation and underlying requirements. This can be a complex and time-consuming effort requiring pre-requisite agile expertise and experience. If this expertise and experience is not readily available in-house, heritage organisations should consider enlisting external assistance. Some examples where external resources can be of value are where there is a need to overcome internal barriers to establish collaborative cross functional teams or with validating estimated economic impact of the entire program and the underlying initiatives.

Finally, to test an organisation's readiness for an enterprise-wide transformation initiative, a pilot should be conducted. A comprehensive end to end pilot, will allow the organisation to road test its new agile capabilities and determine how they can best leverage these new capabilities in attaining business objectives. By leveraging the learnings from the pilot, organisations can make the necessary tweaks to enhance performance. Upon completion of the pilot and from the lessons learnt, the organisation can then look to scale its new capability across the organisation. Scaling a solution across the organisation brings a new set of challenges. This is just the nature of an adaptive challenge, and the key is to remain focused and resilient.

Is your organisation's digital execution strategy flexible, adaptable and robust? Is it periodically reviewed in conjunction with the organisation's business strategy?

## 6. Strong & Innovative Enterprise Culture

The corporate culture of an organisation reflects its values, beliefs and norms and shapes the expected behaviour of its management and workforce in all situations. Corporate cultural factors are often at the heart of an organisation's shortcomings and as it is central to the organisation's risks, it is incumbent on the heritage organisation's board to institute an effective framework that cultivates sound corporate culture. In the recent review of Australian banking

practices, the Australian Prudential Regulatory Authority (APRA) <sup>4</sup> identified a number of cultural failings in its “Prudential Inquiry Into The Commonwealth Bank of Australia”. A summary of its identified cultural failing of the bank that implicated the behaviour of the bank’s board and management;

- there was a widespread sense of complacency from the top down,
- organisation was reactive when dealing with risks, instead of being proactive and pre-emptive,
- lack of emphasis on continuous learning and hence failing to learn from its own experiences and mistakes, and that of others outside the bank, and
- lack of accountability and healthy challenge across the organisation (a great deal of trust but extraordinarily little verification).

Another example where the corporate culture rendered the risk management practices of an organisation ineffective was in the Volkswagen Emission Scandal<sup>5</sup>, where the organisation’s objective to be the largest carmaker in the world and a management culture that fostered a climate of intimidation, led to this emissions scandal. Hence, it is incumbent on boards to identify these cultural failings and take the necessary action to correct them. When initiating digital transformation programs, heritage organisations’ boards must recognise that deep seated cultural values and norms are extremely difficult to change and this can only be achieved through the collaborative efforts of the heritage organisation’s board and management. Furthermore, It is in their interest to evolve the organisation’s corporate culture as a poor corporate culture adversely impacts the organisation’s long term economic viability by creating a drag on its efficiency, increases the potential for fines due to wrongdoings, undermines its ability to retain and attract high performing staff and increases the risk of reputational damage.

We have seen that to be successful in any digital transformation program there must be evidence of a strong and innovative corporate culture across the organisation. As digital transformation initiatives rely heavily on the adoption of agile methodologies for development, heritage organisation leadership will need to ensure that their corporate culture and values are aligned with the Four Values of Agile as defined in the Agile Manifesto. These core values being;

- individuals and interaction over processes and tools,
- working software over comprehensive documentation,
- customer collaboration over contract negotiation, and
- responding to change over following a plan.

To enable creativity and innovation when utilising this methodology there must also be staff empowerment and trust i.e., there must be minimal intervention from the leadership. A command-and-control type approach by leadership will lead to the digital transformation initiatives failing. This change and any other organisation’s cultural change must be driven from the top to ensure that the right digital mindset is prevalent across and at all levels of the organisation. There needs to be enterprise-wide buy-in the new way of working. Innovation labs in digital transformation programs, are useful tools in developing innovative

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<sup>4</sup> [www.apra.gov.au/sites/default/files/CBA-Prudential-Inquiry\\_Final-Report\\_30042018.pdf](http://www.apra.gov.au/sites/default/files/CBA-Prudential-Inquiry_Final-Report_30042018.pdf) (accessed 15 December 2020)

<sup>5</sup> E.Hadas, 2015 “VW Shows Two Sides of Pushy Culture”, Reuters, 2 October

solutions to address key pain point and better understand real client issues. Combining emerging technologies and data sciences, with a growth mindset, will allow the staff to develop improved products and services for customers.

In successful digital transformation initiatives, staff were encouraged to collaborate and demonstrate increased judgement and initiative. To facilitate the development of these required behaviours, organisation instituted the following;

- implemented an efficient and effective decision-making framework,
- aligned the organisation's key policies to support expected cultural behaviours across the organisation,
- established cross functional objectives, encouraged the development of trust between functional teams, and fostered open and direct communication practices, and
- ensured all participants understood the purpose of their involvement and expected contributions.

In the McKinsey report, "Five moves to make during a digital transformation" (April 2019), 42% of its survey respondents who reported successful transformations, strongly agreed that their organisation encouraged its employees to collaborate effectively across functions, business units and reporting lines. This was 3 times higher than all other respondents who did not achieve digital transformation success. In the same survey, 23% of its respondents who reported successful transformation strongly agreed that their organisation offered their employees a high degree of autonomy to make business decisions. This was 1.6 times higher than all other respondents who did not achieve digital transformation success. Hence, cross functional collaboration and autonomy are vital to the success of digital transformation initiatives.

As mentioned, instituting a new set of values and cultural norms in an organisation is never an easy undertaking for any organisation's leadership. These changes will often take significant amount of effort and time to take effect and it is key that the leadership stays focused and resilient throughout the course of this endeavour. Hence, it would make sense to take a phased approach when undertaking its digital transformation initiatives, recognising that its initial success may be limited until the necessary changes are made across the organisation - an adaptive challenge that can be overcome by taking an incremental and experimental perspective.

We have also seen that organisations that foster a learning culture are more likely to succeed – the key to success is its ability to experiment, learn and adapt. This will enable the organisation to better manage uncertainty and ambiguity and give its leaders the courage to be bold in their decision making. . The organisation needs to be courageous and willing to make the hard decisions when identifying the need for change. The possibility of failure comes with any change initiative but if coupled with a learning mindset, the task is certainly seen to be less daunting.

By combining this new mindset with a spirit of resilience and persistence within its workforce, an organisation stands a greater chance of success. In the McKinsey report , “ Five moves to make during a digital transformation” (April 2019) report<sup>6</sup>, 29% of the survey respondents who reported successful transformation strongly agreed that their organisation encouraged test and learn practices. This was 2.4 times higher than all other respondents who did not achieve digital transformation success.

Additionally, organisations with strong change cultures and practices are more likely to be successful at adapting to the changing conditions as these organisation are seasoned at enabling change and more importantly readily open to new ways and practices. They are also experienced in conducting culture related workshop.

Heritage organisation leadership must also demonstrate a sense of urgency in pushing for digital transformation, encouraging, and challenging staff to find new ways of doing things. Heritage organisation leadership themselves need to move away from their deep-rooted leadership practices. Some methods that heritage organisations can employ to develop new management thinking and styles are leadership training programs and incentive program modifications. As leadership is developed through practice, the heritage organisation managers must put into action these new behaviours and lead from the front. They must be seen to be doing the right thing and just as importantly doing things right. By doing things right, we are not referring to just being successful, but to also be accountable for failures and learning from these failures – a pre-requisite to overcoming the adaptive challenges. Sharon Warburton co-deputy chair of Fortescue Metal Group and director of Wesfarmers puts it best in this quote, “When people see the human side of directors, it can be a good step towards helping shape a company culture, which is something we can lead from the board”. Strong and brave leadership is hence essential to achieving digital transformation success and the leaders will need to walk the talk.

Is your organisation’s leadership at the forefront of your digital transformation efforts?

## 7. Resource Allocation Plan Aligned to Execution Strategy

As previously mentioned, digital transformation initiatives often employ agile development methodologies. Unlike plan driven methodologies the resource planning for agile methodologies is much more dynamic and fluid. However, the fundamental principle for resource management is the same between the two methodologies and that is it is an issue of balancing resource supply with demand.

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<sup>6</sup> McKinsey & Company : Five moves to make during a digital transformation (April 2019) – Exhibit 4 “Successful organizations are more likely to employ agile ways of working during their transformations.

The resource allocation process should begin with functional leadership agreeing to make available resources to participate in the cross functional teams, the necessary resources with the required skills sets. Participants should be clear on what their expected contribution in the initiative will be. To facilitate the supply side, an inventory should be created detailing the staff available and their skills sets. Similarly, an evaluation of the required skills for the digital initiatives should be conducted in advance followed by a skill gap assessment. Upon identifying the skills gaps within the organisation, its leadership should consider the strategies to close these gaps. This will involve some form of staff upskilling through training and recruiting the relevant skills from outside the organisation. There may be a temptation by heritage organisation leadership to believe that it may be more effective to replace legacy staff with new hires that have the prerequisite skill sets. The organisation's leadership should be mindful that in doing so, it is not throwing the baby out with the bath water. In the next section, we discuss getting this balance right. We expect to see the Human Resource practitioners in heritage organisation being influential in this process.

The next step is to create the resource demand perspective for the program. This is achieved by layering the high level schedules for releases and iterations into the skills required assessment to form a baseline view of the resource requirements for the program. A couple of key points to note here is that with agile development methodologies, iterations are timeboxed and to maximise the staff contribution, staff are required to commit 100% of their time for the duration of the iteration. As these are initiatives are usually started and completed in short cycles, teams are formed when needed and dissolved as soon as they are completed. This is the dynamic nature of agile resource management. This will create some pressures in the business-as-usual environments but as they are identified early, a competent leadership team will be able to manage these pressures.

Another key principle of agile is that teams are expected to self-organise and self-manage, thus they will need to determine the necessary workarounds when they run into resourcing issues e.g. specific skills that were previously identified becomes unexpectedly unavailable. By continuously planning and adapting, the team should determine how best to work around these issues and sustain its progress. If the team is unable to resolve the issue, it should escalate the issue to the program leadership.

Is your organisation's digital transformation progress been hampered by ineffective resource management strategies?

## 8. Securing Appropriate Digital Competencies

As we previously mentioned, boards of heritage organisations must ensure that it has leaders with the appropriate digital competencies within the organisation to execute on complex and challenging digital transformation programs. The board can consider internal executives or look outside to supplement their executive talent.

A digital transformation program will not succeed without the right people being involved in the execution. Whilst you can easily procure the required technologies, the success of your digital transformation effort is dependent on the organisation's longer-term ability to develop the next generation of talent and skills to effectively utilise these new digital capabilities. Securing and retaining the right talent and skills is crucial to any digital transformation success. Securing the required talent and skills is time critical and hence should be handled with the appropriate urgency and consideration.

The talent and skills required to enable a successful transformation can be secured in the following manner;

- hiring new skills sets from outside and bringing it into the organisation,
- upskilling existing staff whose experience will be impactful to the digital program, or
- utilising a contingent workforce such as independent professionals, freelancers, consultants etc to supplement the existing resources

With the constantly changing market and customer needs and prevalence of new technologies, hiring and bringing in the new talent from outside the organisation is often viewed by its leadership as the most expedient and effective method for building digital talent and capability within an organisation. This is certainly true when trying to obtain hard skills from the market but is not necessarily so when attempting to secure leadership talent who can deliver success to the digital program. As digital transformation is an adaptive challenge, resources with deep digital transformation experiences are essential to the program's success. Aside from supplementing and strengthening the organisation's talent pool and this new talent also bring with them new ways of thinking. These types of resources are today, in high demand and come at a premium. However, they carry the risk of failing to fit in the organisation existing collectives and their associated norms. To be successful, these new hires need to be able to work with and positively influence the organisation's communities. It can take time for new leaders to settle in and make a positive contribution to the organisation. Some of these hires with strong digital experience may lack the management experience and leadership skills of their new heritage organisation counterparts that can take time and effort to develop. This could prove to be a significant hurdle for new hires. A lesser challenge potentially faced by new hires is their ability to learn the pre-requisite domain knowledge of the heritage organisation.

Another option for heritage organisation leadership to consider is upskilling selected members of the existing workforce. i.e. investing in their most important asset, their people. These existing resources are familiar with the organisation's communities, have established networks and are well versed in how to influence outcomes within the organisation. These are traits that are critical to evangelising the benefits of a digital transformation program and obtaining enterprise-wide buy-in. Heritage organisations should select staff who they believe will be most impactful to the transformation program and supplement their existing domain knowledge with the required digital skills. Investing in staff is also an extremely effective method of improving staff retention and engagement, securing loyalty, and getting buy-in into the program objectives. Their evangelising efforts will help garner support for the required cultural changes. Getting the balance right between new digital skills and retaining domain knowledge is crucial to the transformation success but not an easy leadership endeavour. Some of the challenges associated with this option are;

- developing the employee's skills in the required timeframes,

- determining employees with the pre-requisite skills and expected behaviours,
- scaling the program across the organisation for it to be effective, and
- overcoming inherent leadership biases to avoid nepotism.

The final option available to heritage organisation leadership is the use of contingent workforce where the required digital skills and talent can be readily brought in to supplement the program's internal workforce. An obvious benefit here is the ability to deploy the required expertise in a relatively short timeframe and that it can be targeted for specific phases and/or activities within the program. The other benefit it brings is its neutrality in relation to the organisation's communities. This independence allows the contingent worker to focus on specified objectives and effecting the required changes without being drawn into inter-community differences. They also bring in fresh and new perspectives based on practical experience and learnings from previous engagements. Also, as we had previously mentioned any digital transformation program should be viewed as a journey and its demand for resource will constantly fluctuate. The use of contingent workforce can help heritage organisations more effectively manage the ebbs and flows of the program's resource demands. This offers the organisation a timely and often more cost-effective solution to support this variable resource need. In a recent study by Gartner Group<sup>7</sup>, organisations most often ranked contingent workers as the best way supplement their critical competencies.

Challenges associated with the use of contingent workforce personnel is;

- managing and effectively engaging contingent personnel,
- using these resources on a prolonged basis can adversely impact the program budget,
- retaining and extending quality candidates that are in high demand, and
- partnering large contingent firms that are incentivised to on-sell additional services.

Our view is that the optimal method to secure digital competencies is to use a hybrid strategy consisting of all three options mentioned above. The construct of this hybrid strategy is dependent on the type of organisation, capability of the existing workforce, existing organisation culture, state of the digital transformation program etc. and the mix of each option will hence vary depending on the overall situation. Again, as digital transformation initiatives are adaptive challenges and hence on-going, it is advisable that this strategy is periodically reviewed to ensure that it remains relevant to organisation's digital progress.

Is the mix within your organisation's digital talent and skill pool optimal?

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<sup>7</sup> Gartner Group, "Workforce Planning for Competitive Advantage Post Covid-19", <https://www.forbes.com/sites/forbesinsights/2019/07/20/think-going-to-the-moon-was-tough-50-years-ago-try-digitally-transforming-a-corporation-because-72-of-us-are-failing-at-it/?sh=12104e336933> (accessed 19 December 2020)

## 9. Effective & Efficient Governance

The function of governance is to define the framework for authority, responsibility, communication, funding, and progress monitoring in support of the attainment of the program's goals and strategies. This involves KPIs, KRIs and OKRs definition and tracking, program policy and standards definition, roles and responsibilities definition, and risk identification and management. The purpose of these elements within the framework is to ensure that successful execution of initiatives and the achievement of the stated goals. Hence, the governance function needs to be dynamic, expedient, efficient and on-top of matters for it to be effective in guiding a program / project towards success. To achieve this, the organisation will need to ensure that it obtains the right information pertaining to the digital progress at the right time from the right sources – finance practitioners and business management must be aligned to these expectations. In establishing the program's performance metrics, it should consider the following;

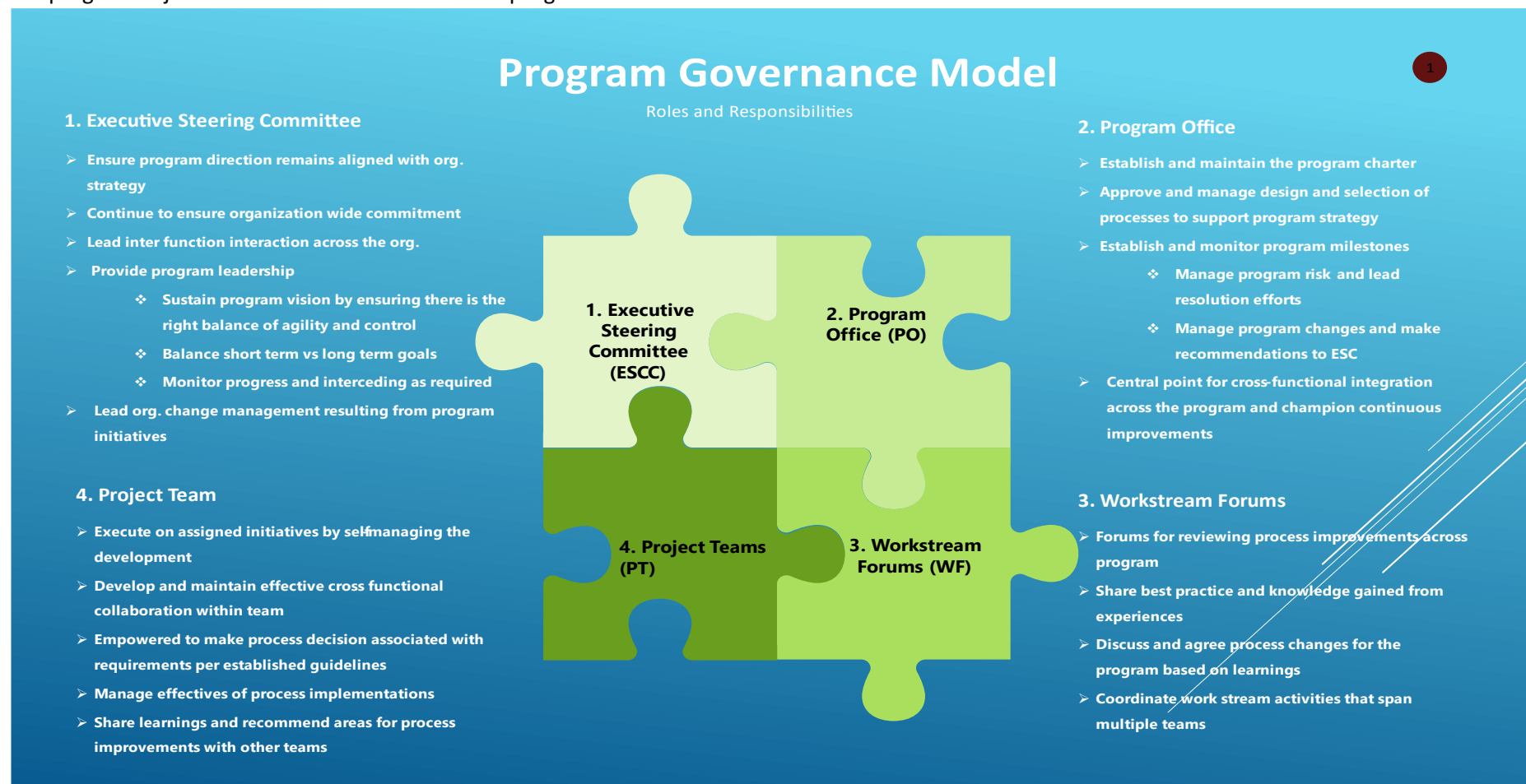
- metric numbers are manageable and can be effectively and efficiently sourced,
- metrics are relevant and aligned to the program and business strategies,
- metrics highlight key drivers, risks, and areas of performance volatility,
- metrics track the outcomes and benefits,
- metrics track the validity of the key assumptions that underpin the strategy,
- metrics comprise of both lead and lag indicators,
- metrics are appropriately balanced in relation to the program's time scale (i.e. short, medium and long term), and
- metrics being tracked are available to both management and the board.

Good governance practices will serve to motivate the teams across the program and foster trust and collaboration amongst the teams. Sound practices will ensure alignment on the program vision, promote creativity and innovation, ensure shared learnings, establish open and honest monitoring of progress and achieving business value in a timely and cost-effective manner.

A key criterion for the program governance framework is that it too needs to be nimble and adaptive in helping guide and direct the digital transformation program. The key objectives of the governance framework are to ensure:

- engagement at the right levels of the organisation and build joint ownership and buy-in on the direction of the effort,
- the program strategy remains aligned to organisation strategy,
- execution of the individual initiatives and that the expected benefits are at minimum realised,
- consistency in execution across the different workstreams and that the learnings are shared across the program, and
- manage the program's risk profile and ensure any significant changes to the program's pathways are assessed accordingly.

The multi-level governance model should be established to oversee the program – the model below “Program Governance Model”, is a suggested governance framework. It should consist of an executive steering committee, program office, workstream forums and project teams. The suggested roles and responsibilities of each of these groups is reflected in the diagram above. The roles and responsibilities and the governance model can be tailored to best fit the program objectives – it should be tuned to the program’s features.



Also, as we had mentioned earlier, both the board and management have joint accountability for digital transformation execution. Hence boards must stay abreast of the digital progress, technology advancement and market activities, leveraging both internal and external resources to achieve this. As progress is made in a digital program, the organisation's risk profile will also shift, and the board will be required to take the appropriate action to ensure that its risk tolerance remains aligned to its strategic objectives.

Is your organisation's governance framework nimble and adaptive and evolving to your program's progress? Is your governance framework still based on plan driven methodologies like Waterfall?

## Conclusion

The new business norm is now certainly much more volatile, uncertain, complex and ambiguous. Many of the heritage organisations existing structures, policies and business practices are being challenged in this new dynamic and fast changing environment. Leaderships in these heritage organisations recognize the need to reimagine their respective organisation to be able to successfully grow and operate in the new business environment. They see digital capabilities as a means of helping them achieve this objective and use digital technologies as strategic enablers. The recent Covid-19 pandemic has accelerated the implementation digital initiatives across these organisations. It has shown us, what can be achieved when we are focused, aligned, and committed to the cause. Significant shifts in mindset and practice are required to establish innovative and adaptable organisational cultures.

Digital transformation success is predicated on getting the digital strategy and the execution right. The digital strategy needs to be aligned with the overall organisation's strategy. Given the fast-changing environments that these organisations operate in, the strategies need to be dynamically managed to deal with the constant evolutions within the new business environments. To be successful, heritage organisation leadership together with the entire organisation will need to be aligned and coordinated for the duration of this multi-year journey, posing a challenge in collaboration and resilience.

From our framework, we see that digital transformation programs are complex and multi-dimensional. It requires a great deal of talent, effort and considered leadership to be successful. Strong and effective corporate governance practices are essential to ensure continuous learning is maintained, and the overall skills and practices are aligned to the demands placed on the organisation.

Michael Gale in an Forbes article published in 2019, stated that 72% of corporation were failing at their digital transformation initiatives.<sup>8</sup> It is not hard to see why organisations fail due to the complexity of digital programs and the scale of change required.

Organisations will need to develop innovative proficiency to ensure its own sustainability. This is the responsibility of boards who need to remain active participants in the digital evolution within heritage organisations. The drive for this change must come from top of the house and it calls for a bold vision supported by strong leadership and enterprise-wide engagement. There is no one unique path that an organisation can take to attain this bold vision. The path that it chooses to follow will depend on the organisation's own unique circumstances. In our report, we have raised questions for leadership in heritage organisations to reflect on during the course of their digital journey.

We at AlfaSec Advisors will welcome your perspectives on digital transformation and will gladly engage in a discussion on its approach.

Please contact us at [Marketing@Alfa-Sec.Com](mailto:Marketing@Alfa-Sec.Com) for an obligation free discussion on this topic.

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<sup>8</sup> Michael Gale, Jul 2019 "Think Going to the Moon Was Tough 50 Years Ago, Try Digital Transforming A Corporation Because 72% of Us Are Failing At It", Forbes Magazine, <https://www.forbes.com/sites/forbesinsights/2019/07/20/think-going-to-the-moon-was-tough-50-years-ago-try-digitally-transforming-a-corporation-because-72-of-us-are-failing-at-it/?sh=12104e336933> (accessed 19 December 2020)