IS CREATING A SEPARATE DIGITAL ORGANIZATION TO DRIVE DIGITAL TRANSFORMATION A RED HERRING?

4 WAYS CEOS ENCOURAGE REAL COLLABORATION

By Goutam Challagalla and Tassu Shervani

Virtually all firms are investing heavily in digital initiatives. One key question they grapple with is whether these digital initiatives should be housed in the current business or in a separate organization. Firms are often torn between the two extremes, and many have opted to have a separate unit to drive digital initiatives and innovation. Some have even gone back and forth on this decision, trying one approach first and then the other.

Our experience has led us to believe that the debate on creating a separate organization is a red herring. The more important issue is to create collaboration among executives who are charged with the current businesses *and* those who are responsible for the new digital initiatives, regardless of the organization structure chosen. Indeed, having a separate unit without *explicit and upfront collaboration* mechanisms with the rest of the organization is bound to cause problems later (e.g., reintegration, scaling up, culture fit).

Research shows that CEOs can deploy *four levers* to encourage collaboration:

1.   The first lever is to create <u>*joint outcomes*</u>, but leave the means of achieving the outcomes to the judgment of the executives in charge. This encourages executives to use their creativity to achieve expected outcomes and gives them the freedom and flexibility to choose how they go about doing so. A simple example is to allow digital and traditional businesses to double count revenue, so that they are each motivated to support each other's growth initiatives. More complex outcome metrics can be designed in specific situations.

2.   The second lever is to specify <u>*desirable behaviors*</u> that the organization would like their teams to engage in. Often digital units are separate entities because of the need to foster innovation, but they may need the support of the traditional organization for commercialization. In such cases, a firm can specify the exact behaviors that will encourage such collaboration (e.g., joint planning of go-to-market activities). By requiring people to collaborate, and *formally* setting up the meetings and processes to do so, desired behaviors can be encouraged.

3.   The third lever is to build the <u>*capabilities*</u> of people. At the highest levels in the organization it is often difficult to see that a lack of collaboration may stem from people in the traditional business not having the knowledge and skills about new ways of doing things, and vice versa. Learning and development activities focused on capability improvement can help bridge this gap. Broad, large scale, firm or business wide learning programs can instill the right skills and capabilities that allow the two sides to understand and engage with each other.

4.   Finally, the fourth lever is to build a <u>*culture*</u> of collaboration. Of course, it takes several years for such a culture to flourish – but the path to a new culture is through the management of outcome related goals, behavior-related goals, and enhanced capabilities of people. In short, we become what we do every day, and if on a daily basis our outcome goals are linked, our behavior is changed through planned interactions, and our skills and capabilities grow, the new and desired culture will inevitably take root.

In summary, whether you place your new digital initiatives in a new own organization or within your current businesses is less important than whether you create joint outcome goals, prescribe and encourage desired behaviors, instill understanding through skill and capability development, and ultimately create a culture of collaboration.

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