

STRATEGY

Realizing and Overcoming the Digital Myopia

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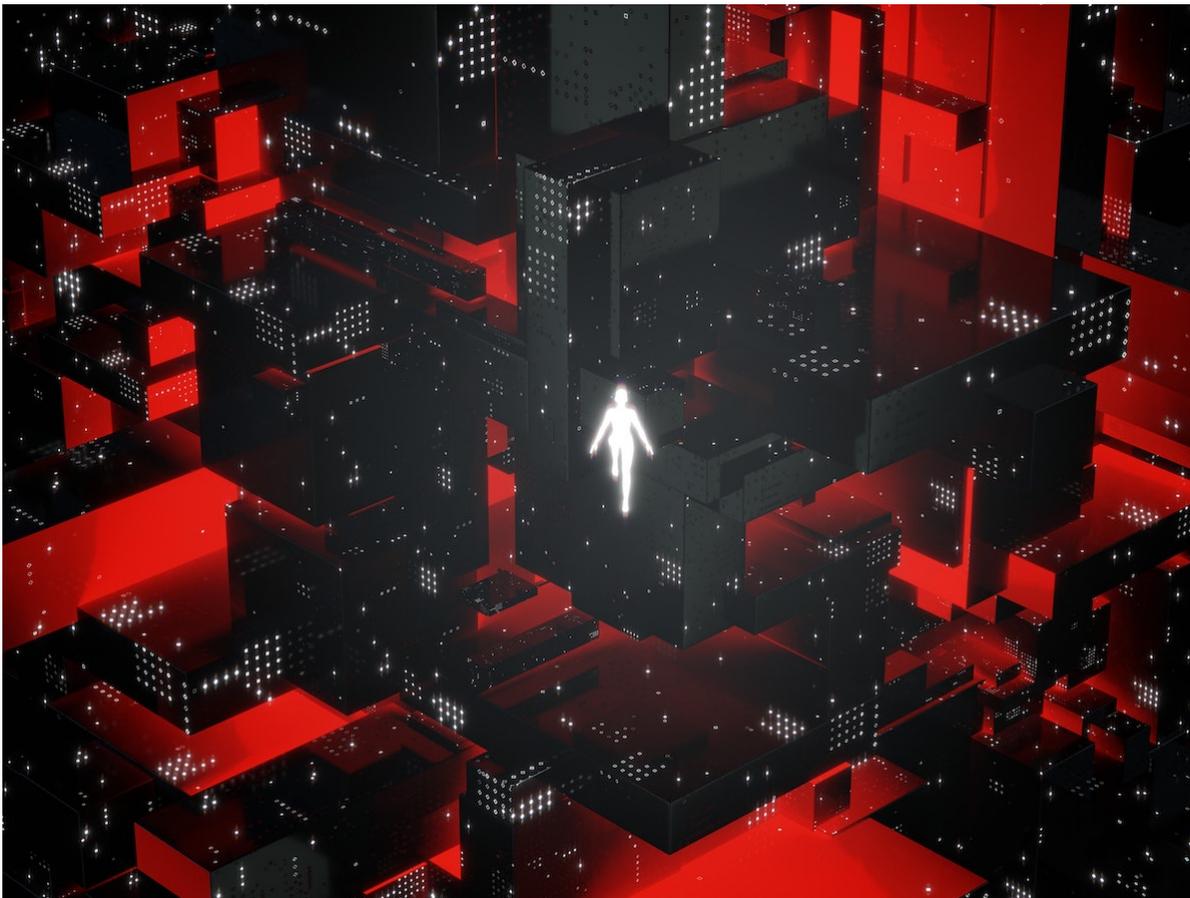


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Firms must realize and overcome digital myopia to reap the complete harvest of digitalization.

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A myopic view of digitalization prevents certain firms from exploiting the full potential of digital transformation. Instead, when the digital transformation initiatives get driven by strategic vision, they either complement or substitute the existing business processes and move the firms towards achieving much-contemplated excellence.

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Managers often fall into one of these traps leading to digital myopia: efficiency trap, pockets of excellence trap, and replacement trap.

Efficiency trap: A few business executives stop seeing value beyond achieving efficiency, which is the inherent outcome of most digital interventions. Consequently, short-term wins reflected in profit numbers drive their digital motivation and often tend to lose the strategic harvest beyond efficiency.¹ For example, most organizations that implemented robotics process automation (RPA) and gained cost efficiencies failed to see the value of organizational knowledge structures and newer operational routines that it contributed. A recent Gartner report claimed that 50% of firms do not reap the full benefits of RPA as they frequently get stuck after deploying just a few bots for efficiency.² On the other hand, firms like KPMG, EY, and Accenture that realized RPA as a business transformation resource, gained competitiveness. The same logic of missing the strategic value and getting trapped by efficiency excitement applies to other digital technologies like the internet of things, mobile, and cloud.³

Pockets of excellence trap: Managers who tend to digitalize operations at the department level without an overarching digital strategy fall into this trap. The systems thinking perspective prescribed that the ‘whole’ is different from the ‘sum of its parts’; hence, digital interventions as a piecemeal would lead to pockets of excellence and impede competitiveness over the long run.⁴ For example, a reputed services firm in the USA deployed Peoplesoft and Electronic Account Payables systems, which were excellent digital initiatives separately that helped them improve short-term performance. While the respective departments were successful in their digital deployments, they only created pockets of excellence that lacked integration and compatibility. The outcome was expensive as the firm had to buy a digital interfacing system (much costlier than the original digital interventions) to make the connections. Consequently, sorting this confusion, they lost a significant portion of the market share.

Replacement trap: Limiting digitalization to mere replacement of people is another trap that business executives fall into. While a few drudgery jobs could fade away by digitalization, the bigger agenda lies in communicating to the workforce that tasks are different from jobs and preparing them for the change. Digitalization should be realized as a change in people-to-task matching and an opportunity to create more value-adding tasks. According to a recent McKinsey Global Institute report, 14% of the global workforce (375 million) need task redeployment as part of their jobs due to digitalization.⁵ Firms that have strategically upskilled or reskilled the workforce successfully redeploy them into newer tasks that digitalization creates. For instance, Stanley Black & Decker reskilled and redeployed about 60,000 employees in its 100 facilities at various stages of digital maturity.

Towards Breaking the Digital Myopia

Business executives and managers should realize that the interactions of people, processes, and technology as architecture with one layer interacting with the other could help realize the true potential of digitalization.

To this effect, it is essential to realize that it is for the ‘people’ that business organizations exist. Here people are meant to encompass a broad array of groups like customers, partners, suppliers, and employees. Be it employee satisfaction, customer experience, or shareholder profitability, a firm’s success depends on the positive effect it creates on its people. Thus, people are the vital foundational layer of digitization architecture (see Figure1) on which the interplay of the processes and technology occurs. Put differently, without the people layer, processes and technologies become meaningless.

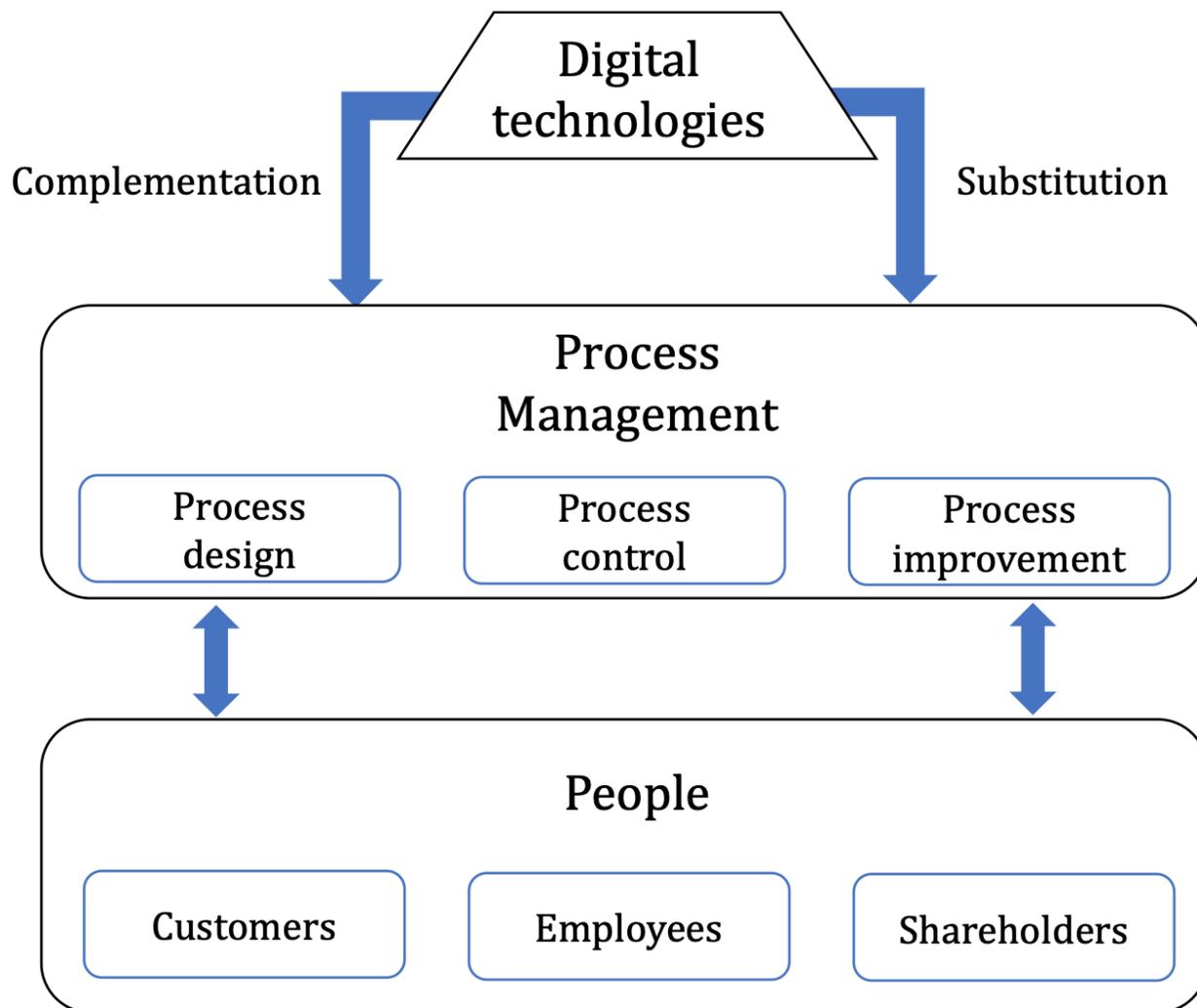


Figure 1: Digitalization architecture

Second, the processes created to systematically perform the tasks should be viewed as a layer above the people layer. In the last two decades, much attention has been given to the process layer with process improvement methodologies like lean manufacturing, Agile,

and Six Sigma that help design, manage, and continuously improve the processes.⁶ These methodologies helped streamline the efforts of people and deliver the best possible product or service to enhance satisfaction levels in the people layer. Thus, without addressing the process layer, technological investments become futile. After all, a bad process digitalized will not lead to effectiveness, rather could impede the overall performance. In this context, Bill Gates commented, “[...] automation applied to an inefficient operation will magnify the inefficiency.”⁷

Digital technologies can supercharge the existing processes as the third layer in the digitalization architecture. This could be realized either by *complementation* or *substitution*. First, digital technologies complement the process layer by enabling operational capabilities (cost, quality, flexibility, delivery), in turn affecting the people layer. For example, at FedEx, robotic arms pick packages from a collection bin and place them on a conveyor belt for auto-scanning and packaging, reducing production costs and improving process quality. Consequently, the non-value adding time was reduced for employees to execute more valuable tasks, and thence customer satisfaction.⁸

Second, a substitution entails reimagining products and services as digitally enabled assets and generating new value through their interconnections.⁹ For instance, Lego created new revenue sources from movies, mobile games and applications by leveraging digital technologies. With a budget of USD60 million, Lego made USD468 million in revenue from a movie, going beyond their flagship Lego bricks.¹⁰ Similarly, newspaper company The New York Times’ digital subscription model has substituted for newspapers. Consequently, the revenues increased 40% year-over-year, with 87% of the total subscriber base paying for the digital edition.¹¹

Case Study Examples

- **Walt Disney Company:** Prior to the launch of Disney+, a digital online streaming platform in 2019, Disney created a process management system by redesigning fragmented content creation and distribution processes. To this effect, they acquired several firms, including Marker Studios, BamTech, 21st Century Fox and Marvel Entertainment, and focused on workforce alignment for cultural balance. Thus, their

digital intervention complemented their business model to provide customer friendly entertainment platform. All of these led to Disney's competitiveness amidst other market players like Netflix. Consequently, this attracted about 129 million subscribers worldwide in 2022, a proxy to their customer satisfaction.

- **DBS Bank:** Between 2010 and 2017, in the first wave of digital transformation, DBS bank reorganized its operations and technology groups to form a unified setup. Employees were trained in lean principles in 2010, and process improvements drove operational excellence. Then, they applied digital technology layer above the improved processes to launch a new wealth management platform. It digitally integrated retail banking services with asset management, the first of its kind in Asia, taking a substitution route of digitalization architecture. Consequently, the results positively impacted employees, customers, and shareholders, leading to a cultural change. In this context, Paul Cobban, Chief Transformation Officer said, "I am not a data guy; I am a culture change guy. And culture is more about behavioral change, rather than capability or technology".¹²
- **DHL:** DHL's digital transformation began in 2019 with AI-Powered logistics deployment to eliminate missing shipments. They substituted their traditional quality control with an AI-driven quality assurance system that tracked shipments and flagged issues in real-time. Additionally, they introduced Dorabot, a robot to sort about 1,000 parcels per hour, complementing their process capabilities. DHL integrated these digital interventions with a focus on its workforce by launching career marketplace a digital platform for education, training, upskilling and reskilling. Emphasizing on this, Meredith Wellard, Vice President of Platform Management commented, "The program, which is set to welcome its first live users in the first half of 2022, is a chance to ensure that we always have the right people with the right skills in the right place. It will also be able to strengthen and develop the DHL's biggest candidate pool—our own employees."¹³

Concluding Remarks

A strategic view of digitalization helps create competitiveness, and organizations should not lose the full harvest by getting trapped within a myopic view. Too much focus on efficiency, piecemeal digitalization leading to pockets of excellence, and viewing it as a workforce butchering machine will only take firms away from this strategic thinking, thus causing digital myopia.

Firms should look to reinvent or repurpose their businesses using the digitalization architecture (constituting people, process, and technology layers). Several successful companies like The Walt Disney Company, DBS Bank, Lego, DHL, etc., that consciously applied the digitalization architecture serve as testimonies of overcoming digital myopia and eventually established a sustained competitive advantage.

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