Going digital internationally

The dilemmas of the new world

Digitization has an unexpected outcome: the redefinition and ever-increasing importance of the analog. So High Tech leads to the increasing need of High Touch like we experienced with the intro of the telephone last century. Organizations and leaders of those organizations that are capable to reconcile those dilemmas are having a great competitive advantage over those who believe that Digital High Tech will push aside Analog High Touch.

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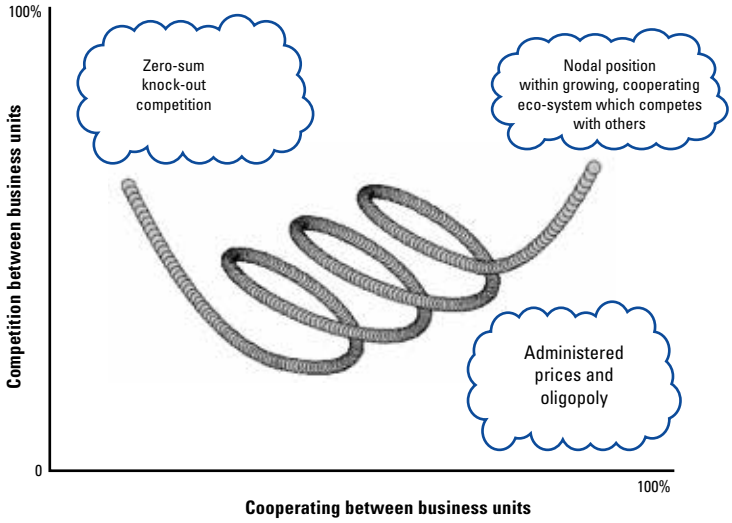
INTRODUCTION

Speaking at the Cisco Live! 2015 conference in Milan, Italy, VP David Bevilacqua, said: 'Most digitalization projects being carried out by customers will fail because they are failing to re-imagine. The digital strategy should be fully in-line with the business strategy. You cannot do this without first looking at how, as a vision, you drive the digitalization of your journey.' Bevilacqua added that organizations were failing to think about the sort of business they wanted to be, and not just how they wanted to evolve. 'We need a new kind of strategy where the business and digital strategy are as one,' he said.

Whilst many organizations recognize the importance of digitalization, most are struggling to achieve and deliver the business benefits. For example, some retailers have ceased trading in the high street and gone totally online requiring a catastrophic change in how they operate and loss of their traditional trading knowledge as they struggle with the new. Some retailers have developed new web based online selling in competition with their own high street stores which immediately gives them a dilemma when customers browse in store to see and evaluate products hands-on, only to return home and surf to buy from their online division.

Apart from new organizations that are born digital, most digitalization is not about abandoning history and throwing away established core business practices and totally transferring to a new IT way of doing business, but combining the strengths of both. Research evidence from our consulting practice reveals that leaders and managers find themselves up against a number of key dilemmas when seeking to digitalize. By confronting these dilemmas and seeking effective reconciliations between their competing demands, organizations can embed new solutions that synergize older traditional business with the new worlds of IT.

Figure 1. The emergence of business ecosystems.



DIGITAL DILEMMAS ACROSS CULTURES

Organizations have to define new paradigms for electronic commerce and enable, facilitate, sustain and reward interaction between consumers and their own organization. They can exploit potential markets by having a website to promote and market their products and services. With the rapid growth of the Internet, it would be foolhardy for companies to ignore its powers and potential. More and more companies are jumping on the bandwagon and getting their businesses wired to stay afloat in today's competitive environment.

Porter used the value-chain concept in showing the advantages of incorporating digital resources into businesses. Basically, the value chain was divided into its physical and informational components. The physical component included all the steps in capturing and manipulating the data. With the help of information technology, companies could effectively improve their information processing powers. The Internet was hailed as a good fit to those industries with information-based business models.

The Web offers businesses new distribution channels that enable customers worldwide to be informed and buy their products. It has the potential to create a number of opportunities. For example, an Internet-enabled distribution strategy has been heralded as a way for small and medium-sized companies to compete equally with larger organizations.

Changing paradigm

The industry stands at the summit of the new Information Economy. The future belongs to those enterprises which can receive, organize, distribute and utilize information most effectively and most swiftly. And the Internet plays a crucial role in this development.

As James F. Moore has pointed out we have moved beyond competition and co-operation to the creation of business ecosystems, that are whole economic communities of interacting organizations and individuals. Informational goods and services are produced *by* and *for* eco-system members. The most effective strategy is to position yourself near the centre of the web or ecosystem and make your enterprise indispensable to its major transactions. As the ecosystem develops its principal modes of transactions grow with it, often faster than the ecosystem itself. Where an enterprise is a node in a system every

new member increases nodal transactions which grow exponentially. Thus the tenth member of a group produces nine additional relationships, all of which may pass through the nodal enterprise. Figure 1 shows what the quantum leap 'beyond competition' looks like.

Note that competing and co-operating have jumped to a higher level of complexity. Whereas employees once co-operated *within* the firm to compete with those *outside* the firm, now whole ecosystems of companies co-operate *within* that ecosystem to compete with *outside* ecosystems, which could include replacements for the organization itself, not an impossible scenario.

Mostly quoted dilemmas between analog and digital

In their interesting article *Building a Digital Culture: How to meet the challenge of multichannel digitization*, Harshak et al. ([Hars13]) argued that many customer-facing businesses installed digitally enabled organizations, processes, and systems to remain competitive by building multichannel experiences. This approach, however, is not enough in itself and often results in a divided company: 'one part moving into the future, the other clinging to traditional sales channels — and a delay in the much-needed transition to a multichannel operating model'. The suggestion in the article is that a culture needs to be created that embraces digital media and multichannel capabilities. This culture can be created by using formal (people processes and role definitions) and informal levers (role models and behaviors) in an integrated fashion so that it can help people adapt to new ways of doing business and enable companies to deliver the multichannel experience that customers want.

It is in the integrated approach that we find value can be created. But it assumes that the crucial dilemmas need to be reconciled. In Table 1, the authors raise some approaches that distinguish the analog and the digital world.

In her book *What's Mine is Yours*, Botsman ([Bots10]) describes three growing models of Collaborative Consumption: Product Service Systems, Communal Economies, and Redistribution Markets. Social networks facilitate consumer-to-consumer marketplaces that redistribute goods from where they are not needed to somewhere or someone where they are. This business model encourages reusing/reselling of old items rather them throwing them out, thereby reducing the waste and carbon emissions that go along with new production.

Table 1. Main characteristics of analog versus digital.

Analog	Areas of concern	Digital
Pushes products into the market	**Customers and demand**	Pulls ideas from the market
Driven by purchasing and supply		Driven by customer demand
Strong hierarchy	**Organization**	Flat hierarchy
Slow decision making		Rapid decision making
Process and task orientation		Result and product orientation
Defined tasks ('do this job')		Empowered employees ('find a way to achieve a goal')
Understands needs of long-standing customers and how to fulfill them	**Attitudes and ways of working**	Understands needs of digital customers and how to adopt new trends
Orientation toward status quo, past lessons, and accepting constraints		Orientation toward innovation, improvement, and overcoming constraints
Experience and stability count		Potential, vision, curiosity, motivation, flexibility, and adaptability count
Homogenous teams, working within departmental silos		Mixed teams working in cross-functional and integrated communities
Career progression within defined paths		Strong collaboration and rapid, unpredictable career progression
Focus on planning and optimization		Focus on rapid launch and learn

ORGANIZATIONAL DILEMMAS

When we look at the analog – digital divide proposed by Harshak et al. ([Hars13]), we see lots of resemblances with a proposed move from the Eiffel Tower Culture and the Guided Missile Culture as described in *Riding the Waves* ([Trom13]). The Eiffel Tower is characterized by a role orientation, Management-by-Job-Description, and importance of Expertise on the product.

Conversely, the digital world, according to the authors, seems to be better supported by a Result Oriented Guided Missile, where empowered employees are Managed-By-Objectives and where the motivation lies in the financial payment they get for an achieved goal.

We believe that for the digitalized approach to be sustainably successful, both cultures need to be integrated as we can see through a variety of lenses. For a start, we examine the type of leadership that reconciles the extreme demands of both analog and digital worlds.

Slow versus rapid decision making

Asian cultures have always had an interest in long-termism, that is not shared as strongly by American men. Asians need long-term relationships for cultural and biological survival. You need help, protection, and shelter to raise a family. Some cultures have long preferred the enduring relationship, while many Western men prefer the one-night stand, all they need to get their genes widely distributed. But long-termism is now a major economic issue. The 'quick buck' may make you profitable, but virtually every sophisticated product of inherent value to consumers was made slowly by people who cared for the product and for each other and persisted. For years now 'persistence' has been the strongest Japanese value in opinion polls. We have to decide as a nation whether to be keyboard entrepreneurs or hang in there and remain faithful to some sustainable purpose beyond ourselves.

Going for the clicks that stick

The challenge for Financial Service Companies has come in part from the unbundling of services into specific pieces. You can buy information, research, trading facilities and advice from separate sources and the combined fees may be less than those paid to six and seven figure professionals. While the Internet is overflowing with *data*, this is not the same as knowledge or information. We are informed by facts relevant to our questions and concerns. We 'know' when we get answers to our propositions and hypotheses. The larger the Internet becomes, the more customers will need a guide to what is relevant to *their* business or interests.

The dilemma can be analyzed as follows. On the one axis we find low-cost specific data and transactions on the Internet. The risk here is that you create a *High Tech* solution where brokers are by-passed by technology. On the other, we find the rich, meaningful, diffuse personal relationships that brokers have developed with their clients. It maintains a *High Touch* environment where you are (over) paying for your own dependence.

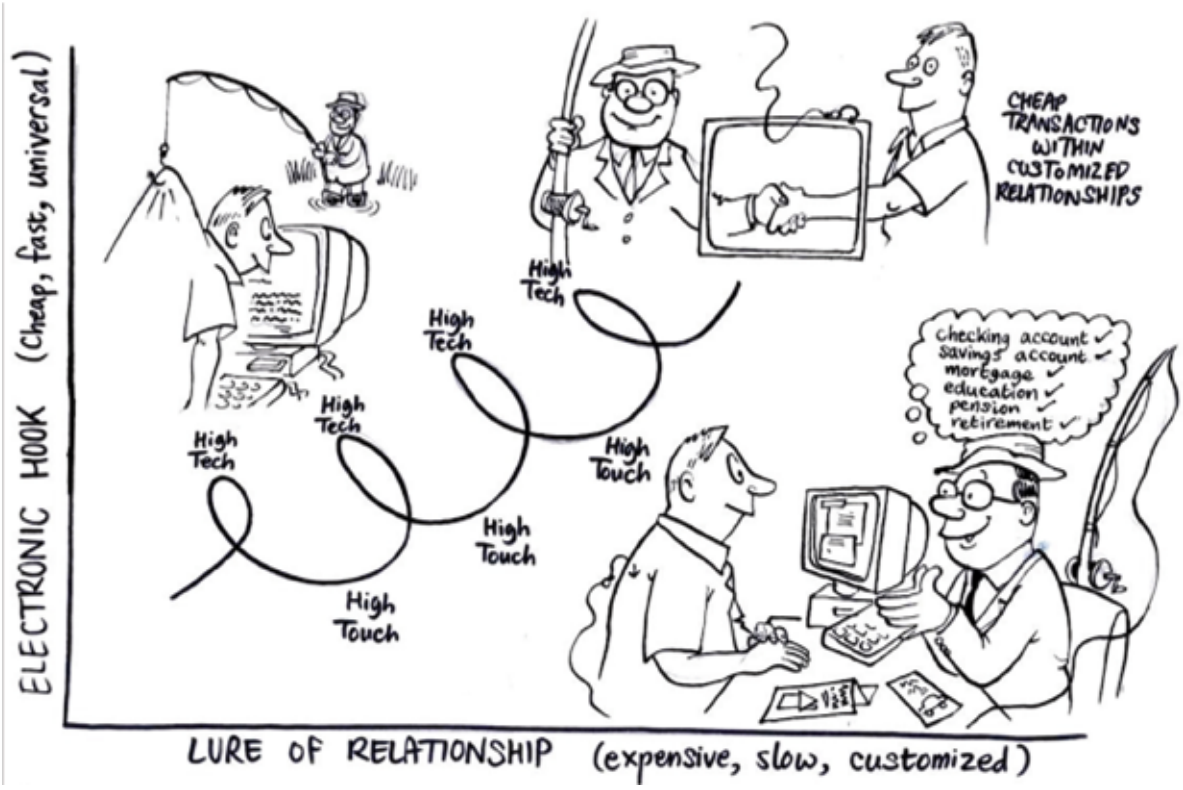
It is obvious that in specific cultures such as the US and Northwest Europe Internet services can take a lot away from traditional face-to-face business. This is true for financial services, buying a dishwasher, a CD, a book and even a car. However, in more diffuse cultures such Arab, Latino and most Asian the relationships are seen as so crucial that one would never give them up for an anonymous service that you get through a click. I remember an American consultant of Merrill Lynch working in Saudi saying that the Internet did not take off easily. They like to be accompanied by a consultant. However, his American colleagues were telling him that you cannot ignore the fact that the more Internet driven competitors were gradually taking market share away.

Merrill Lynch found a situation where Charles Schwab's high level Internet services were eating away quite some market share. Merrill Lynch's answer was close to brilliant. They well understood that instead of relationships being eclipsed by the Internet, they become more and more important in interpreting the possible meanings of the data flows. This is ever more true as the increasing volume of available data outgrows what is relevant to each client.

Merrill Lynch's response to this dilemma was to refocus its efforts on reconciling new technology with customer service. Its strategy was announced by John Steffens at the Forrester Conference in May 1999: 'By combining technology with skilled advisors, clients are given the convenience of interacting when, how and where they want.' Dave Komansky clarified the policy: 'Anyone, anywhere, at any time can log into the Internet to get free quotes, market data, and stock picks from a variety of chat rooms. Yet at Merrill Lynch we are confidently making unparalleled billion dollar investments in our Financial Consultants, research analysts and in our technology and products. We're doing this because we know success in the online world – as it was in the offline world – will be defined by *meaningful content* for the individual.'

We need High Tech but we also need High Touch. The more those numbers rain down upon you, the more you need to talk to someone about them. Merrill Lynch is using the Internet to give better personal service (using high technology) to its High-Touch customers, but also use the Internet to identify those High-Tech customers

Figure 2. High Tech versus High Touch ([Hamp00]).



for whom it makes good business sense to offer High Touch.

It is quite interesting to note that where the High-Touch and brick and mortar organizations are trying to integrate the digital High-Tech through clicks, there is a countervailing development where we see that Amazon is going to build shops. Bookstore owners often think of Amazon.com as the enemy. Now it is becoming one of them. At the beginning of November 2015, the online retail giant will open its first-ever brick-and-mortar retail store in its 20 year existence, in University Village.

The store, called Amazon Books, looks a lot like bookstores that populate malls across the country. Its wood shelves are stocked with 5,000 to 6,000 titles, best-sellers as well as Amazon.com customer favorites.

There is some irony in Amazon opening a physical store. For years, it could undercut physical retailers on price because it did not have brick-and-mortar locations. But those stores offered something Amazon could not: the instant gratification of owning an item the second it was purchased, as well as the personal touch of a knowledgeable sales clerk.

Amazon is betting that the troves of data it generates from shopping patterns on its website will give it advantages in its retail location that other bookstores cannot match. It will use data to pick titles that will most appeal to Seattle shoppers.

And that could also solve the business problem that has long plagued other bookstores: unsold books that gather dust on shelves and get sent back to publishers. More than most book retailers, Amazon has a deep insight into customer buying habits and can stock its store with titles most likely to move.

Focus on planning and optimization versus focus on rapid launch and learn

The last dilemma is perhaps one of the most important ones to reconcile. It is brilliantly described in *The Lean Startup* by Erik Ries ([Ries11]). In short, there is no time to keep on focusing on planning and optimization, because you will again be beaten by organizations who learn faster.

The *Lean Startup* provides a scientific approach to creating and managing startups and getting a desired prod-

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uct into the customers' hands faster. The Lean Startup method explains how one needs to drive a startup, how to steer, when to turn, and when to persevere and grow a business with maximum acceleration. It is a principled approach to new product development.

Too many startups begin with an idea for a product that they think people want. They then spend months, sometimes years, perfecting that product without ever showing the product, even in a very rudimentary form, to the prospective customer. When they fail to achieve high customer sales, it is often because they never spoke to prospective customers beforehand to determine whether or not the product was interesting. When customers ultimately communicate, through their indifference, that they do not care about the idea, the startup fails.

Eliminate uncertainty

The lack of a tailored management process has led many a startup or, as Ries describes them, 'a human institution designed to create a new product or service under conditions of extreme uncertainty' ([Ries11]), to abandon all processes. They take a 'just do it' approach that avoids all forms of management. But this is not the only option. Using the Lean Startup approach, companies can create order not chaos by providing tools to continuously test a vision. Lean is not simply about spending less money. Lean is not just about failing fast, failing cheap. It is about putting a process, a methodology, around the development of a product.

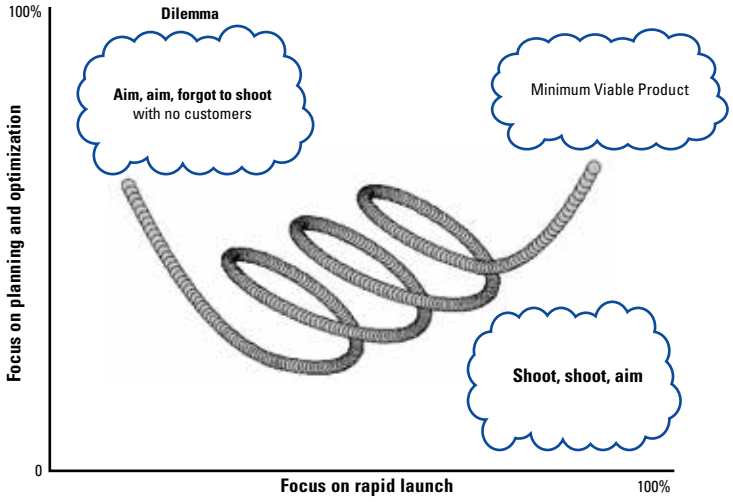
Work smarter, not harder

The Lean Startup methodology has as a premise that every start up is a grand experiment that attempts to answer a question. The question is not 'Can this product be built?' Instead, the questions are 'Should this product be built?' and 'Can we build a sustainable business around this set of products and services?' This experiment is more than just theoretical inquiry; it is a first product. If it is successful, it allows a manager to get started with his or her campaign: enlisting early adopters, adding employees to each further experiment or iteration, and eventually starting to build a product. By the time that product is ready to be distributed widely, it will already have established customers. It will have solved real problems and offer detailed specifications for what needs to be built.

Develop a minimum viable product

A core component of the Lean Startup methodology is the build-measure-learn feedback loop. The first step is figuring out the problem that needs to be solved and then developing a minimum viable product (MVP) to begin the process of learning as quickly as possible. Once the MVP is established, a startup can work on tuning the engine. This will involve measurement and learning and must include actionable metrics that can demonstrate cause and effect questions.

Figure 3. Speed up launch and learn.



The startup will also utilize an investigative development method called the 'Five Whys'; asking simple questions to study and solve problems along the way. When this process of measuring and learning is done correctly, it will be clear that a company is either moving the drivers of the business model or not. If not, it is a sign that it is time to pivot or make a structural course correction to test a new fundamental hypothesis about the product, strategy and engine of growth.

Validated learning

Progress in manufacturing is measured by the production of high quality goods. The unit of progress for Lean Startups is validated learning – a rigorous method for demonstrating progress when one is embedded in the soil of extreme uncertainty. Once entrepreneurs embrace validated learning, the development process can shrink substantially. When you focus on figuring the right thing to build, the thing customers want and will pay for, you need not spend months waiting for a product beta launch to change the company's direction. Instead, entrepreneurs can adapt their plans incrementally, inch by inch, minute by minute.

CONCLUSION

In this short paper we have been trying to show that digitalization has an unexpected outcome: the redefinition and ever-increasing importance of the analog. Very much like the introduction of the telephone has increased the chance of people causing traffic jams because they want to see each other. So High Tech leads to the increasing need of High Touch. The quick-buck demands long term trust and the perfect tested out products needs to be launched quickly as a minimal viable product. Organizations and leaders of those organizations who are capable of reconciling these dilemmas have a great competitive advantage over those who believe that Digital High Tech will push aside Analog High Touch.

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Prof. Dr. F. Trompenaars is recognised around the world for his work as a consultant, trainer, motivational speaker and author of various books on all subjects of culture and business. He has spent over 30 years helping Fortune 500 leaders manage and solve their business and cultural dilemmas to increase global effectiveness and performance, particularly in the areas of globalisation, mergers and acquisition, HR and leadership development. Listed regularly as one of the world's most influential, living, management thinkers, he has been awarded the International Professional Practice Area Research Award by the American Society for Training and Development.

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