

Four pathways to becoming “future ready” in the digital era

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Stephanie Woerner

Many companies continue to struggle with digital transformation. In a recent study, company leaders report that on average they are not much more than halfway along their transformation journeys and are looking for guidance to help increase their momentum. [1]

In *Future Ready: The Four Pathways to Capturing Digital Value*, Stephanie Woerner, Peter Weill and Ina Sebastian aim to provide such guidance. The authors are research scientists at MIT Center for Information Systems Research (CISR). The playbook that they developed reports on more than five years of research, over fifty interviews with executives and field-testing in multiple workshops with senior management teams in diverse industries across the world. The journey they recommend to becoming “future ready” is, in summary:

- Articulate your firm’s purpose.
- Choose one of four viable pathways.
 - Anticipate the common change challenges.
 - Develop the ten capabilities central to building future-readiness.
 - Create, capture and track three types of value – from operations, customers and ecosystems – over time.

Their interviewer, Brian Leavy, is Emeritus Professor of Strategy at Dublin City University Business School and a *Strategy & Leadership* contributing editor (brian.leavy@dcu.ie).

Strategy & Leadership: What does it mean to be “future ready” in the digital era?

Stephanie Woerner: We see a company undergoing a digitally enabled business transformation as having two simultaneous goals:

- Using digital technologies and practices to speed up and wring out costs by standardizing and automating processes, reusing data, processes and technology; and identifying areas where productivity can be increased.

- At the same time, these companies are using digital technologies and practices to innovate, creating new offers and services, identifying new ways to engage customers and developing new business models and revenue streams.

We label companies that have learned to both improve customer experience and be more efficient, simultaneously and consistently, as future ready. These future-ready companies are top performers, reporting estimated average revenue growth of 17.3 percentage points and a net margin of 14.0 percentage points above their industry average.

S&L: Why do so many businesses continue to struggle with their digitalization efforts?

Woerner: Most large companies have developed over time an excessively complex set of legacy business processes, systems and data supporting their products, with efficiency and responsiveness often further undermined by product and functional siloes. A second reason lies in the reluctance of such companies to push accountability to the people doing the work and to move toward more evidence-based decision-making. Successful digital transformations require new ways of working, like Agile methodologies, design thinking and test-and-learn to help drive the process forward.

A third reason is a lack of digital savviness or understanding of the likely impact that emerging technologies will continue to have on business success over the next decade. Developing this savviness across the top management team is critically important in successful digital business transformation.

A future-ready two-by-two charting framework

S&L: The primary tool you've devised for assessing future readiness and charting a path forward is your two-by-two framework. Please explain.

Woerner: Our framework has operational efficiency and customer experience as its primary dimensions and maps four types of companies, with future-ready companies positioned in the top right quadrant (see [Figure 1-2](#)).

Most large, established companies begin their digital transformations in the “siloes and spaghetti” quadrant with traditional approaches to customer experience and operational efficiency. The revenue growth and net profit margins of companies in this quadrant were the weakest and this is where we found 51 percent of companies sit in our research.

Those we call the “industrialized companies” (bottom right quadrant) focus their initial transformation efforts on applying best engineering practices for automating their operations and create a single source of “truthful” data. They take the capabilities that made them great and turn them into modular and standardized digitized services. We found about seven percent of companies to be in this quadrant.

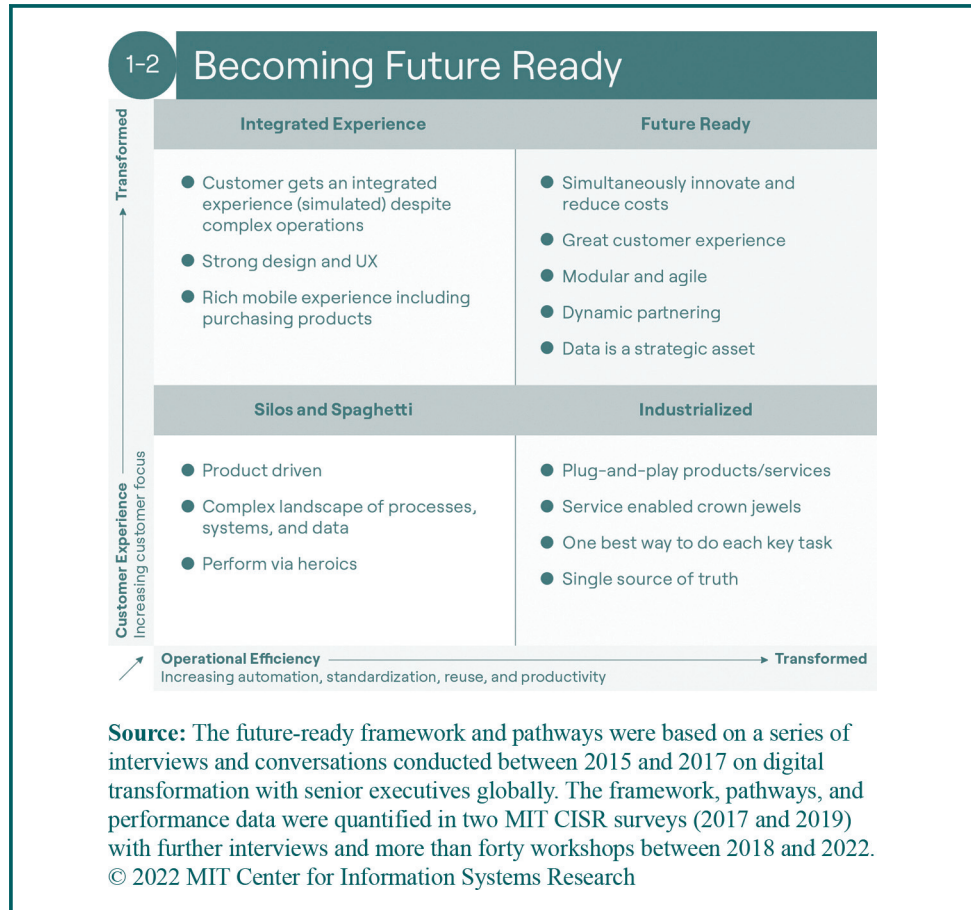
Companies that want to offer an “integrated experience” develop attractive websites and mobile apps and hire designers and more relationship managers to improve the customer experience. However, while doing so, they often incur a rise in cost-to-serve as the initial improvement in customer experience comes at the expense of further operating complexity. This quadrant is where 22 percent of companies were located.

The “future-ready” quadrant is the target companies undergoing digital transformation should be aiming for. This is the quadrant where leading “born-digital” firms are. These companies fully harness digital tools and processes to innovate continuously to engage and satisfy customers with seamless experiences across all channels while at the same time relentlessly reducing



Ina Sebastian

Figure 1-2 Becoming Future Ready



operating costs, using modular, Agile and data-driven methods and approaches. These companies are also organized to leverage partners to add more value to customers, recognizing that they can't achieve full future readiness on their own.

S&L: What are the main kinds of value that firms should look to create and capture from their digital transformations?

Woerner: The key to success is creating value from digital initiatives and capturing that value in company performance. To help measure progress, we have identified three kinds of value companies accumulate over time on the journey to being future ready:

- The first is value from operations. The foundation of digital business, value from operations includes reduced cost and increased efficiency and speed. In our research, companies created this value by developing modular components, automating processes and becoming more open and agile.
- The second kind, value from customers, comes from solving customers' problems, providing a great customer experience and acting consistently and with purpose. Value from customers encompasses increased revenue via cross-selling and new offerings, generating more stickiness and loyalty.
- As companies move toward more digitally-enabled and partner-based business models, a third kind of value, value from ecosystems, will become a significant contributor to company performance.

Developing the necessary future-ready capabilities

S&L: Successful digital transformation entails the building of ten future-ready capabilities, four of them “foundational” to all three kinds of value creation. What are the foundational four and why you do see them as fundamental to any successful transformation process?

Woerner: The four foundational capabilities are:

- **Treat data as a strategic asset.** Future-ready companies treat data as a single source of truth, accessible across the company and used to make evidence-based decisions and develop new offerings.
- **Develop and retain the right talent.** As companies adopt Agile methods, data analytics, robotics, AI and other digital approaches and technologies, what they demand of employees is changing. While ensuring that employees have the right skills for the role is important, so is empowering them to work collaboratively to solve complex problems.
- **Link individual and team behaviors to company goals.** Future-ready companies do this to help employees in their decision-making, complementing the coach-and-communicate leadership style that empowers employees with accountability and data rather than telling them what to do.
- **Facilitate rapid learning throughout the company.** Being adaptive and responsive to an uncertain future requires adopting test-and-learn approaches to explore ideas, create value and scale learning across the company, as exemplified by leading born-digital firms.

S&L: Fully realizing each of the three kinds of value highlighted earlier requires the building of further specific future-ready operational, customer experience and ecosystem capabilities. What are they, and why are they so important in each case?

Woerner: In terms of operational capabilities, to continually innovate at low cost, future-ready companies take the operating components and know-how that have made them great and turn them into digitized, modular services that can then be combined into many different digital offerings. They also strive to develop the ambidexterity needed to innovate continuously for customers while seeking to improve processes, encourage reuse and identify productivity enhancements.

In relation to customer capabilities, future-ready companies integrate products into a seamless multiproduct, multi-channel experience, which addresses a typical customer journey. Furthermore, they are purpose-driven, recognizing that leaders, customers, employees and partners are increasingly demanding that companies have a strong purposeful and worthy reason for existing beyond maximizing shareholder wealth.

Turning to ecosystem capabilities, future-ready companies lead or participate in ecosystems. Those that lead create go-to destinations for their customers, and they partner to provide a wide variety of curated products. Companies that participate in ecosystems provide digitized products that easily plug and play in those ecosystems. Future-ready companies also pursue dynamic, digital partnerships, greatly enabled by application programming interfaces (APIs) that automate the sharing of data, transactions and insights, to increase both customer reach and product/service range.

Anticipating the likely change management challenges

S&L: The full transformation to future readiness will typically involve four significant change management challenges. What are their distinguishing characteristics?



Peter Weill

“Future-ready companies are using digital technologies and practices to innovate, creating new offers and services, identifying new ways to engage customers and developing new business models and revenue streams.”

Woerner: We refer to these challenges as “explosions” because companies are blowing up the way they used to do things to remove barriers and move faster. The four are:

- **Decision rights:** This explosion is about getting the right people to lead key decisions, including what to do and how to do it and prioritizing the spending for digital investments.
- **New ways of working:** Digital technologies enable new ways of working, like making evidence-based decisions and offering products to customers in a test-and-learn way, that change collective work habits and help transform the culture.
- **Platform mindset:** Future ready companies create and reuse platforms that convert traditional operating activities and capabilities into digital services, connect organizational silos, share data and standardize processes.
- **Organizational surgery:** There is a time in most transformations when leaders realize that some kind of structural surgery will be required to achieve better customer experience and greater operational efficiency.

Each digital business transformation will involve these “explosions,” and they are likely to generate resistance from executives who see themselves as losing power and influence in the transition. So preparing for these challenges and persevering through them will be required if the transformation will fulfill its full promise.

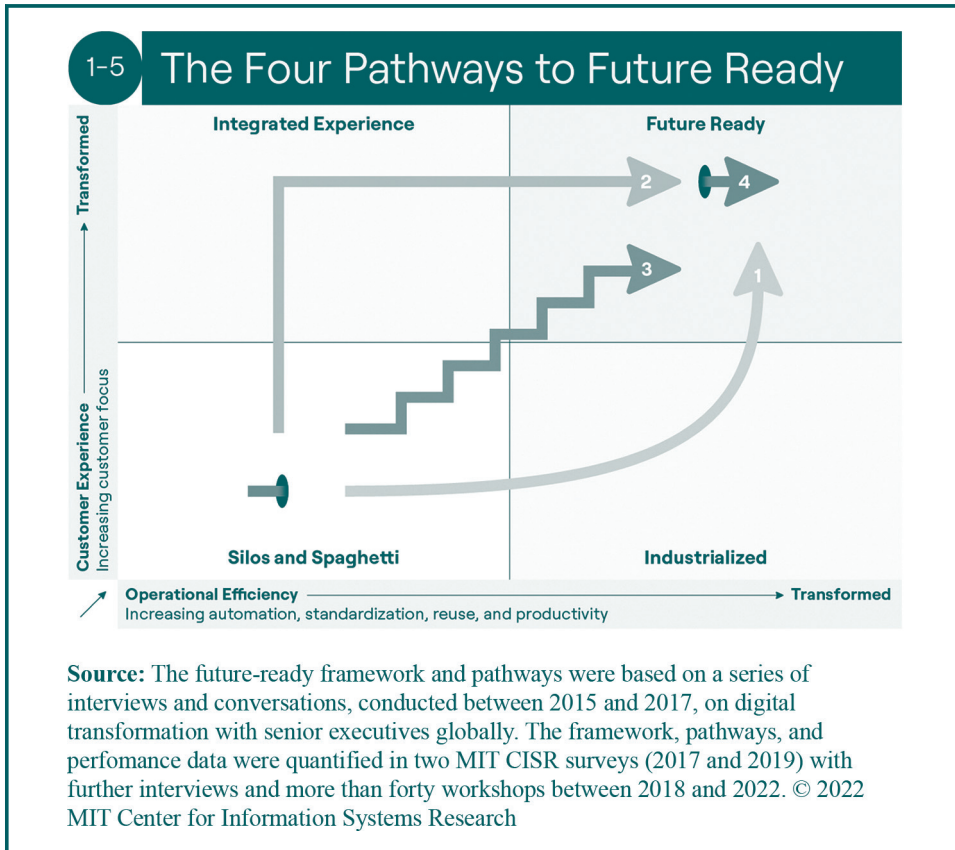
Four viable pathways to becoming a future-ready company

S&L. At the core of your digital transformation playbook are the four “different and viable” primary pathways to future readiness. What are the most distinctive features of the first pathway and under what conditions should a company consider taking this route?

Woerner: The first pathway moves companies from silos and process spaghetti to the digitally “industrialized” quadrant and later on to future ready. The goal is to begin radically simplifying the operations of the company by turning what it does best operationally, such as on-boarding a new customer, processing an insurance claim or designing a new product and turning those activities into modular digital services. Innovation then becomes easier and faster by combining modules into new customer offerings once efficiency is addressed. Companies that choose this pathway need to be aware that it will take some time to see benefits and that it requires putting other projects on hold. Companies choose this pathway when their customer experience is good enough to hold competitors at bay and the most pressing strategic goal is to improve operational efficiency. Many manufacturing companies, like Tetra Pak, follow this pathway, but we also see companies in other industries, like Danske Bank, following it ([Figure 1.5](#) illustrates the four pathways).

S&L: How does pathway two, “delight customers first,” differ most from pathway one and in what circumstances might this second option present the better choice?

Figure 1.5 The Four Pathways to Future Ready



Source: The future-ready framework and pathways were based on a series of interviews and conversations, conducted between 2015 and 2017, on digital transformation with senior executives globally. The framework, pathways, and performance data were quantified in two MIT CISR surveys (2017 and 2019) with further interviews and more than forty workshops between 2018 and 2022. © 2022 MIT Center for Information Systems Research

Woerner: This pathway involves moving from silos and spaghetti to the “integrated experience” quadrant first and from there to future ready. The benefit of this pathway is that improved customer experience typically leads to higher customer satisfaction scores and increased sales, and every customer-facing part of the business wants to lead its own digital initiatives in this area. The problem is that the improvements often involve new, stand-alone systems that add more complexity, and at some point, the company must focus on increasing its operational efficiency to progress to future ready. Companies choose this pathway when they are facing pressure from competitors, and their most urgent strategic goal is to improve the customer experience, tackling the problem across multiple organizational silos. Our research showed many retail companies followed this pathway, but manufacturers like CEMEX, the global building supplies company, also followed it to improve dramatically the customer experience of job site managers.

S&L: How do the leadership challenges presented by these two pathways differ, and what advice do you have on how best to address them?

Woerner: With pathway one, leaders must ask line-of-business colleagues to stop, or at least slow down requesting new systems and wait until the early stages of industrialization are completed and the digital processes are ready to use and reuse. Of course, line-of-business leaders typically do not want to hold off, and if they have budget and decision rights, they can create local solutions. This is where companies on pathway one often fail. To address this problem, leaders of companies on pathway one can allocate a certain amount of budget to customer experience initiatives but mandate that those initiatives plug-

and-play into the new platforms. Also leaders on pathway one should take care to clearly communicate its two-phase nature from the outset, first building platforms and later exploiting them to accelerate innovation for customers.

Leaders on pathway two have to be aware of costs. The local innovation at the beginning of the transformation does not address the underlying complexity of the product offerings and systems and can drive up the cost to serve the customer. At some point, the senior executives must change the focus of the transformation initiatives toward increasing operational efficiency. However, this part of the journey is typically easier than in the early phase of pathway one because of the motivational power of the success already generated by delighting customers.

S&L: In what competitive context does your third pathway, “alternate the focus, like stair steps,” make most sense and what main challenges are involved?

Woerner: The third pathway is about taking a disciplined alternating focus between customer experience and operational efficiency to deliver smaller but tangible improvements, balancing the improvements on each dimension along the way. The challenge is to synchronize all the different activities. Companies must be highly disciplined in scoping shorter digital initiatives – six to twelve months in duration – completing them, and then sustaining the value creation of each initiative on the stair steps by passing on the lessons learned to the next initiative so that cumulative learning and progress occur. This pathway makes sense if the company’s customer experience needs improvement, and senior leaders can identify a few initiatives that will make a big difference. Starting with those, they then shift the focus to operational efficiency, repeating the cycle in small steps all the way toward future ready. DBS Bank is an example of a company that followed pathway three for its digital business transformation.

S&L: Under what circumstances does your fourth pathway “creating a new unit” offer the most effective route to future readiness?

Woerner: This pathway makes sense when leadership can’t see a way to change the customer experience and operations in the company fast enough to survive or to take advantage of an opportunity. On this pathway, leaders create a new born-digital unit designed to succeed with the right people, a new business model, an enabling culture and the best partners and platforms.

Many companies follow this pathway as one element of a broader digital business transformation and a substantial investment in how the company will make money in the future. For example, Bancolombia, the largest commercial bank in Colombia, pursued a pathway three transformation, while concurrently creating a new digital bank, Nequi, designed to test technologies like authentication through face and voice recognition, new ways of working and partnering, learning that was subsequently absorbed into the bank’s mainstream operations. Companies pursuing multiple pathways must coordinate across them or run the risk of increasing complexity and fragmentation, measurably slowing down overall progress.

S&L: Finally, how can the leadership team best go about tracking progress on their company’s digital transformation journey?

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“Future-ready companies treat data as a single source of truth, accessible across the company and used to make evidence-based decisions and develop new offerings.”

Woerner: In an activity as uncertain as digitally transforming a large organization, knowing where you are at each stage is as important as knowing where you want to go. This requires two important types of measures:

- Effectiveness at building the capabilities future-ready companies must have to thrive in the digital era.
- Indicators of transformation success, such as progress on value capture.

The most effective tool we have seen companies use to keep track of where they are is maintaining a real-time dashboard. The data will not be perfect or even agreed-upon in the first few rounds of creating your dashboard. Perhaps the most challenging and important task will be articulating the business logic that shows how value is being created and captured as the transformation progresses. [2]

Notes

1. Woerner, Stephanie L., Weill, Peter and Sebastian, Ina M. (2022), *Future Ready: The Four Pathways to Capturing Digital Value*, Boston: Harvard Business Review Press.
2. *Future Ready* includes a very helpful “build your own dashboard starter kit.”

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