The Dark Side of the Digital Revolution

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Gerald C. Kane

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JOHN HAGEL III (DELOITTE), INTERVIEWED BY GERALD C. KANE

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Deloitte Center for the Edge co-founder John Hagel III

Everywhere we look, companies are "going digital" — adding mobile apps, making customer service available online, solving problems via Twitter. But Deloitte Center

for the Edge co-founder John Hagel III considers this window dressing, and fears many executives aren't recognizing how business is changing at a fundamental level.

"I think there's a tendency to look at digital technology and think about it more as an opportunity, a choice," he told *MIT Sloan Management Review*. "The mounting performance pressure in our shifting business landscape turns this from an opportunity and choice into an imperative. The longer you wait, the more marginalized you're going to become."

The irony, Hagel notes, is that same digital technology that's creating all this pressure also creates a very different approach to transformation that can help large companies to really become very different entities over time. "I'm an optimist," he adds. "I actually view this 'dark side' and mounting performance pressure from an optimistic view, in the sense that the old approaches are just not sustainable, and some senior executives have seen the need for fundamental change driven by this technology. The big issue for them is how to get that change to happen in a large traditional organization."

Hagel spoke with *MIT SMR*'s guest editor Jerry Kane.

Where do you think companies are today in developing their digital strategies?

Oh, I still think they're way behind. Generalizations are always risky, but most of the executives I talk to are still very much focused on digital largely as a way to do "more of the same," just more efficiently, quickly, cost effectively. But I don't see a lot of evidence of fundamentally stepping back and rethinking, at a basic level, "What business are we really in?"

Why do you think that is?

Well, I think there are a number of factors. Part of it is just what I call the "dark side" of digital technology, which is mounting performance pressure, in part enabled and precipitated by the digital technology. In a world of mounting pressure, there's a natural human instinct to stick to what you know. Don't go out of your comfort zone because things are really scary out there. And so there's a tendency to just hold on and just squeeze harder on what you're currently doing.

The excuse that I get from executives all over is, "Well, we're prisoners of Wall Street." Investors just want quarterly performance and a little bit more money to the bottom line, and that's what we're focused on: short-term efficiency improvements. Those are probably the two big factors, when I talk to executives, as to why they're not thinking more ambitiously or creatively about what this technology enables.

Are there any out there that you've talked to who are thinking about it creatively?

It would be hard for me to highlight a company that I would say is really embracing this at a fundamental level and rethinking their core business. I mean, every large company in the world has an outpost, an innovation lab,

here in Silicon Valley. And they'll always point to those innovation labs as evidence that they're really embracing this technology and doing very creative things with it. But so far, these are just outposts, and have very little impact on the core business.

Why do they struggle to think about how these technologies can transform the way they do business or their customer needs? Do you think they know the answer and they're just not able to execute on it?

No, they're still largely in avoidance mode, dodging the question and putting it on the back burner. Nobody's creative in a time of mounting pressure. You fall back. You hunker down. You do what you need to do for the next day, and then fall back on this excuse — I believe it's an excuse — that Wall Street won't tolerate any long-term transformational thinking.

And I think that the other piece is the curse of success. Large companies that have created enormous wealth and generated incredible market positions on a global basis — who's going to argue that what they're doing today is wrong? I think they lose the creativity and become complacent and assume that somehow, whatever's going on today is a blip or an aberration, and we'll get back to where we were and things will be back to normal.

Those who know me know I tend to be provocative. I will make the assertion that there is an unstated agreement between these outposts and the core business. And the unstated agreement is, "We're going to give you some money, and we're going to give you some space and resources and people. You can do whatever you want in those sandboxes. Just remember one thing; don't ever,

ever come back to the core, because if you do, we will crush you."

And these are very reasonable, rational people, and they understand the rules of the game. They've got a little sandbox. They can play all they want. They're not going to come back to the core. I know many of these people and they are playing by the rules of the game.

So, if one of these executives came to you and said, "Okay, you convinced me. I need to think more creatively, but I've got these performance pressures." Do you have any advice —

Yeah. I've got a lot of advice!

One of the things that we've ended up focusing heavily on is an approach to strategy that is very prevalent within Silicon Valley and the high-tech community, but very alien to large, traditional companies. It's what they call the "zoom-out/zoom-in approach" to strategy — they focus on two time horizons, and they do it in parallel. One key question is: What is our relevant market or industry going to look like 10 to 20 years from now? And what are the implications for the kind of company we need to become in order to be successful in that market or industry? That's the "zoom out" part.

They "zoom in" to a totally different time horizon, which is 6 to 12 months. And on that time horizon, the key questions are: What are the two or three business initiatives — no more — that would have the greatest impact in accelerating our movement towards that longer-term destination? Do we have a critical mass of resources against those two or three business initiatives today? And how would we measure success? What are the

relevant performance metrics that would tell us whether we are, in fact, accelerating our movement?

Those are totally different. The time horizon in traditional companies is the one- to five-year plan. And that's totally irrelevant in the zoom-out/zoom-in. They spend almost no time on one to five years.

Isn't it hard to predict the future accurately on the 10- to 20-year timeframe?

Some of the pushback I get from executives is, "You're talking about a detailed blueprint 10 to 20 years from now. I have no clue what that looks like!" And I give them Bill Gates in the early days of Microsoft as an example of a much higher-level view of the future. His zoom-out, 10- to 20-year view of the computer industry could be summarized in two sentences: One, computing is moving from centralized mainframes out to the desktop. Two, if you want to be a leader in the computer industry, you need to be a leader on the desktop.

Not a lot of detail, but enough detail so that when he got a call from IBM one day asking him to develop an operating system for new desktop computers, he took that phone call that day, versus the 10 others that would have been distractions.

It's challenging, there's no question about it. I don't want to pretend it's an easy task. I think that part of the art is focusing on what are the fundamental forces that are reshaping the business landscape and taking a high-level view.

One key question is: Do you have a clear and shared 10- to 20-year view of how digital's going to transform your business? A lot of individual executives have actually thought about this and have a point of view, but they're

completely diverse in terms of their view of where and how the market's going to evolve. And so, have they aligned around a shared view of the 10- to 20-year future?

Another key question, in terms of talent, is: Have you been applying digital technology to accelerate learning and performance improvement in the work environment on a day-to-day basis? With the mounting performance pressure and the accelerated pace of change that digital technology is bringing about, our view is that the learning that's going to be most powerful is not by accessing what other people already know. It's driving new knowledge creation through practice in the workplace itself, rather than in a training room, by addressing challenges and business situations that have never been confronted before.

And that's a very different approach to learning. And digital technology, we think, can be very powerful in the work environment. But it's rarely being used for that purpose.

Do you know any companies that are being successful with digital as an ongoing learning platform?

One is Intuit in the financial services software business. They've been very focused on how to use digital technology to create experimentation platforms for workers throughout their company. The whole notion is, how do you reduce the risk of failure? Because if you're going to learn faster, you're going to fail a lot. And one of the things holding workers back is the fear of failure. Failure gets punished.

But you can create experimentation platforms where you can try out things, test things, with very low risk — if it fails, it's not going to bring the company down. That's a

huge enabler of accelerated learning in the work environment.

A company called LiveOps, which outsources call center operations for larger companies — they have 20,000 people who work for them, and they've done some interesting things. One is they gave each one of their workers a real-time performance dashboard that fed back to them how they were doing on multiple dimensions of performance, which is something they borrowed from World of Warcraft. Most companies who do that would have used it as an instrument of punishment: You're falling behind these three metrics, you've got six months to get your act together or you're out of here.

What LiveOps did was, they actually invited workers to ask for help, and they created an online digital discussion forum where workers could come in and say, for example, "I'm having trouble handling this kind of customer call. Anybody have any ideas?" Then they started to watch, recognize, and reward the workers who were emerging as helpers and advice givers. So they've created a powerful peer-to-peer learning environment for their workers.

But that seems to point also to culture. Are there certain characteristics of companies that you see are more digitally successful or not?

I'd say most large company cultures are shaped by what we call the "scalable efficiency" model of business. The whole focus on scalable efficiency is predictability, reliability, and everybody's supposed to know exactly what to do and when to do it. In that kind of culture, acknowledging that you don't know something is a sign of great weakness and puts you at risk of getting fired.

We see a shift from "scalable efficiency" to "scalable learning" as the core institutional model, enabled by digital technology. A key foundation of scalable learning is a culture where actually it's not only okay, but it's expected that you're not going to know and that you will ask for help. That's a huge shift.

And it goes to the leadership question. Leadership in the future, I believe, is actually around being able to frame the right questions, the highest-impact questions, where the leader is actually saying, "I have no clue, but this is a really important question. And if we could figure it out, we would do amazing things." That's a completely different model of leadership.

About the Author

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