WT* is a Digital Transformation?

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A powerful acronym to describe the challenges of the current global environment, first used by the US military, is VUCA – volatility, uncertainty, complexity and ambiguity. If we were to invent a similar acronym for the current debates about 'digital' circulating in the media, we at LEF might choose MUD:

- **Multiple meanings** – In many environments, everyone has their own definition of digital. The marketing department thinks of digital media, the process people think of greater automation and robotics, some may think of smart cities/homes/internet of things, others of artificial intelligence.

- **Unclear meaning** – In many cases, 'digital' is used not as a word with meaning, but almost like a specialist punctuation mark, used to convey modernity, currency, excitement.

- **Digital-washing** – This refers to the deliberately misleading practice, often perpetrated by IT vendors, of attaching the word digital to more traditional IT activities to catch the digital wave, much as green-washing attaches an environmental spin.

In summary, the meaning of the word digital is as clear as MUD. Now, when we combine the word digital with the word transformation, we start getting into real trouble. We would argue that no-one has ever been clear on the exact meaning of 'transformation', other than conveying a sense of big change.

Because of this, and other linguistic/memetic issues in the 21st century, LEF has decided to build a lexicon of the most important terms being used to describe some of the most important phenomena in the current business and technology worlds. We will be sharing this lexicon with our clients in various ways in the next few months. In this paper, we share a few definitions related to the notion of digital transformation.

We've attempted to make each definition as simple and clear as possible, ideally understandable by a non-expert, and illustrated by examples where possible. We have also tried to clarify what each definition covers and what it does not by listing some of them in contrasting pairs or groups.

Definitions 1

Strategy is the discipline of direction setting. Strategy defines the boundaries of where we participate as a business (e.g. sportswear), how we plan to succeed (e.g. understanding customers better than others), and ideally a measure of success (e.g. profit).

In contrast, **planning** is the discipline that makes strategy real through action plans – sets of tasks that implement the strategy.

Definitions 2

Strategic refers to things that are big, important choices. Strategic may be applied to assets, capabilities or investments. They are big, in the sense that they make a significant difference to the enterprise succeeding in the market. Strategic implies there are valid alternatives. Those in charge of strategic capabilities need access to the top table, both to influence and to learn.

Mission critical refers to things that are needed to keep the business running. Mission critical is not the same as strategic, although some things may be both. Most modern companies need a well-functioning email system to keep running, but they also need well-functioning toilets. Those in charge of mission-critical capabilities don't always need a seat at the top table.

Definitions 3

Commodities are the assets and capabilities that we need to compete, but they don't make us win. Almost every organization's HR, finance and email systems are commodities. We might argue that, unusually for a retailer, Walmart's retail outlets and customer experience are commodities.

Differentiators are the assets and capabilities that make us win. For many organizations, their differentiators are customer-facing. We might argue that Walmart's differentiator is its efficient supply chain.

Definitions 4

Business transformation is a common term for a big business change programme. It is subjective whether any particular change is classified as a transformation. Organizations tend to label changes as transformations when they are some combination of: cross-functional, difficult to execute, large investment, long duration, visible to customers, a big change for employees, a big change in business model, operating model or financial model.

In order to distinguish between different types of business transformation, it is helpful to think of a business as having four levels and hence four different levels of transformation:

Definitions 5

Business strategy refers to what markets we serve, and our strategic posture – how we set out our stall to do that successfully, e.g. as lowest-cost provider of milk. Hence **business strategy transformation** refers to changing to, or augmenting with, a completely different market need or way to win. This could be through line-of-business extensions (same/adjacent product category, brand extensions), leveraging brand alone (e.g. all the Virgin businesses), or digital extensions (e.g. Amazon moving into cloud).

Definitions 6

Our business model sets out how our business works at a high level, including what products/services we provide to whom, and the value flows between stakeholders. (Alexander Osterwalder's Business Model Canvas is one definition of this.) Hence **business model transformation** involves changing how our business works at a high level – for instance, moving from fixed price product to value-based service (e.g. moving from selling jet engines to selling passenger air miles flown).

Definitions 7

The operating model is the underlying assets, capabilities and processes that make it possible to deliver the business model. This includes business processes and organization structures. So, **operating model transformation** means reconfiguring the organization to better support the business model. Business process improvements/innovations often sit here.

Definitions 8

Technical capabilities are the IT/digital assets and capabilities that underpin the business model and operating model. Some of these may be visible to customers/external stakeholders, some entirely internal. **Technical capability transformation** is a radical change in the technology support for the business, including (for example) modernizing legacy components and architectures, and a move to the cloud.

Any given business change may include and require any combination of the above four levels of transformation. Often, a strategy transformation will require the three lower layers to change, a business model transformation will require the two layers below that to change, and an operating model transformation will require a technical capability change. Technical capability transformations may not require any of the higher layers to change.

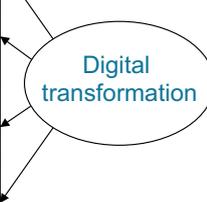Now moving towards a definition of digital transformation:

Definitions 9

IT works in the business. It refers to the use of electronically manageable information and technology to enable the business to operate and make the business better in its current form, usually through business process improvement.

Digital works on the business. It refers to the use of IT to change the shape of the business, often (but not always) through the front-end offerings to customers, consumers and partners. It may also refer to applying IT to a radically different business model, such as a multi-sided platform business.

Definitions 10

A **digital transformation** refers to the use of IT to change the shape of the business, in terms of business strategy, business model, operating model and/or technical capability.

Level	Description	Transformation
Business strategy	What markets we serve, and how we set out our stall to do that successfully.	Changing to, or augmenting with, a completely different market need or way to win.
Business model	How our business works at a high level, including products/services, customers, value flows.	Changing how our business works at a high level, e.g. from products to services.
Operating model	The underlying assets, capabilities and processes that deliver the business model.	Reconfiguring the organization and its processes to better support the business model.
Technical capabilities	The IT/digital assets and capabilities that underpin the business model and operating model.	Transforming the technology support for the business, e.g. a move to the public cloud.

Digital transformation

Transformation happens at four levels

And some other useful, related definitions:

Definitions 11

The **Chief Information Officer (CIO)** is in charge of all enterprise IT. Although the title starts with a 'C', many CIOs are not formal officers of the company in terms of legal responsibility, most are not on their board of directors, and some are not on their business's executive committee (ExCo). The role is sometimes called IT Director or VP IT, rather than CIO. Sometimes this suggests a less senior role; sometimes it is simply a matter of geographic or organization practice. There is often a group CIO and business unit CIOs; how much each is in charge of varies by organization.

The **Chief Digital Officer (CDO)** is responsible for ensuring the organization is evolving to optimally exploit digital capabilities. The **Chief Data Officer (another CDO)** is focused on the organization's management and exploitation of information. Each organization chooses its set of CxOs, and roles such as Chief Innovation Officer and Chief Strategy Officer may overlap with some of the above. The key is that someone must be responsible for these leadership domains, whatever their title is.

Definitions 12

Leadership is the discipline of influencing and inspiring people towards a vision. It is not necessarily top-down, or dependent on position. It has many styles, and is a right that is dynamically conferred or revoked by followers.

Management is the discipline of owning and taking responsibility for parts of a business, projects and teams. It is top-down, and dependent on position. Management draws its authority from the top of the organization.

Digital leadership is the discipline of leading in a highly digital context. It is the same discipline as business leadership applied to the opportunities and challenges of surviving and thriving in an increasingly digital world. Key themes include exploiting information as an asset, non-linear business models and high levels of agility. In the early years of the 21st century, a lot of digital leadership is about catalyzing executives and their organizations to reimagine their role, their products and their ways of working. By about 2025, the term digital leadership will be irrelevant, since what we currently call digital will be an omnipresent, integrated part of every aspect of the world.

IT management, in contrast, is the discipline of ensuring the IT organization delivers on the IT strategy.

We hope that this round-up of LEF lexicon terms is helpful to you. It is, of course, not imperative that your organization adopts LEF's definitions. But it is imperative that everyone within your business or government agency uses the same terms. It is also helpful if those terms are similar to those used by the rest of the world. LEF also recognizes that language is a living thing, and it is both useful and inevitable that the meanings of words change over time. But it is necessary to lock meanings in for a while, otherwise chaos reigns. We intend the terms above to be locked in until the end of 2018, when we will revisit them.

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We believe that as business and IT become inseparable, virtually every aspect of work and the modern firm will need to be reimagined, and this creates exciting new digital opportunities.

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