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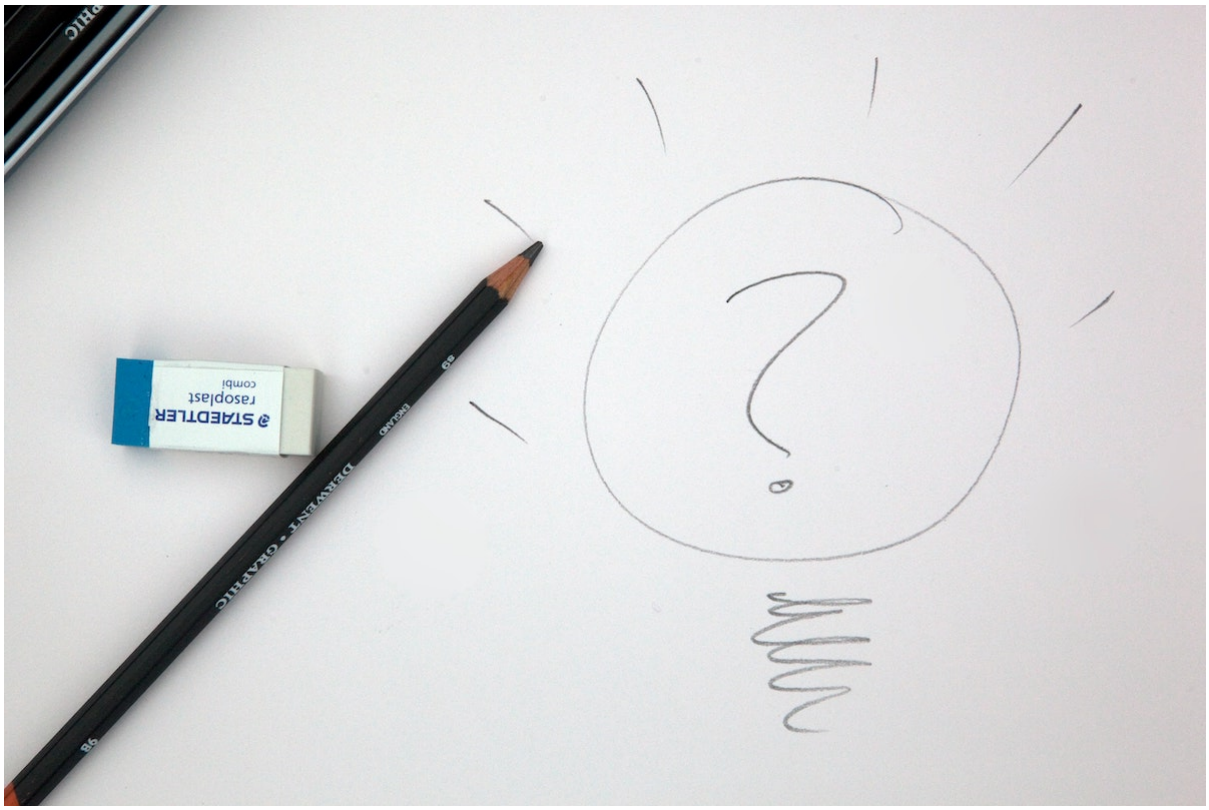
STRATEGY

Why Digital Strategy & Operational Technology Must Remain Perfect Strangers

by Stephen J. Andriole and Noah P. Barsky



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To remain competitive, executives must prioritize digital strategy over technology infrastructure maintenance.

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As technology becomes central to business models, executives are increasingly challenged with maintaining operational excellence while also accelerating digital strategy. Yet, the C-suite and frontline both know that more often it's technology's operational requirements that consumes most of the air in the room – especially when projects flounder, falter and fail. Ultimately, however, strategic competitiveness will not be determined by how well or poorly companies upgrade their "systems," but with how well they reimagine their digital futures.[1]

Therefore, to remain competitive, executives must focus on the urgency of digital strategy imperatives rather than the status of commoditized, cloud-delivered IT projects. Three meaningful questions and three actionable steps can significantly help develop digital strategies that work.

Mindset shift

Operational technology requires massive annual investments – and focus inevitably follows the money. The idea that "technology" will define the existence of most companies in coming decades is still questioned by some companies convinced that change will be incremental, and there will always be time to adapt, even completely pivot, if necessary. But the risks here are enormous, as evidenced by the number of new entrants into old industries through disruptive business models powered by emerging technologies. The pace of technology change and business model volatility are both accelerating faster than anyone thought possible.

Technology can no longer be considered "just" a business process enabler, a plan about how to satisfy project requirements, an application upgrade or a big data analytics project. Yes, execution excellence is imperative, but today – and forever – technology is much more than operational readiness. It's the driver of strategic competitiveness.Operational and strategic technology are not cousins. They're complete strangers – which is what they should remain.

Operational technology is increasingly delivered through the cloud. It's increasingly commoditized. "As-a-service" delivery models across the operational spectrum, are now firmly in place. The competitive advantage companies can achieve through commoditized, cloud-based delivery is limited. Yes, there are "good" and "bad" ways to manage cloud delivery, but how companies should manage hybrid, multi-cloud environments is now a readily-available playbook. Yet, operational technology still consumes a vast share of attention, expertise and budget, even it is now mostly off-premises. Dangerously, all this effort undermines a company's ability to be strategically relevant. Real competitive advantage lies with digital strategy, which is where companies should better allocate effort, resources and funding.[2]

Asking too much

Gartner found that only 23% of CIOs rate their organizations as "effective at business strategy and planning."[3] Further Deloitte reported that only 29% of surveyed business leaders believe that "the technology organization and its leaders should be deeply involved in developing enterprise business strategy.[4] While technology is central to every aspect of business, the challenge for CIOs, CTOs and technology departments to be meaningfully involved in strategic planning and execution has been longstanding.[5]

The challenge remains widespread - in spite of their titles, many CIOs and CTOs still often have their "noses pressed against the C-suite glass." The push for CIOs and CTOs to become strategic – as they wrestle inefficient, outdated, fractured and broken technology infrastructures – has led, in far too many cases, nowhere. All corporate strategy is now, by default, digital. Yet, many companies still view technology primarily as a way to modernize analog business processes.

The confusion about technology – and why it fails so often – is traceable to an unattainable dual mission often given to CIOs and CTOs. If the truth be told, most CIOs and CTOs struggle to manage daily technology operations, with barely a moment to think strategically about how technology should disrupt their business models in three to five years.

The assumption that operational tacticians can also be strategic designers highlights an age-old an ever elusive "business-technology alignment" problem. In a digital world, alignment should be segmented into two distinct parts: strategic governance ("future-proofing" for at least three to five years) and operational oversight. *Remember that mechanics are not designers, and designers cannot change tires.*

Digital strategists

Executives should never use operational readiness as a filter through which to pass strategic objectives or identify strategic constraints. Credible digital strategy aims to describe – and forecast – business processes and models three to five years out. This activity has nothing to do with real-time operational effectiveness, though in many people's minds represents extrapolations from the current technology base which it absolutely, positively is not. Digital strategy should focus on predicting potential disruption and future competitiveness resulting from automation and other emerging technologies – *not how to most expeditiously adopt technologies that fit existing strategies*.

Meaningful strategic thinking requires the reimagination of old business processes, like finance, accounting, HR, sales, and marketing, among other first- and second-order processes. Perhaps the most important change variable is automation - which will disrupt business processes at all levels. Supervised, unsupervised and deep learning algorithms will all fuel automation. Smart applications will mine business processes and develop applications to improve or eliminate inefficient processes – without developer intervention. That's a new world with a very near horizon.

How will recruiting, on-boarding, incentives management and performance assessments occur in five years? Will financial audits be conducted the way they are today? Marketing will be almost entirely digital. The logic applies to products and services too. How we buy, sell and support products and services will change as "old" digital technology evolves and "new" technology appears. Tax preparation, car buying, insurance shopping and even basic health care tasks have all moved digital and, as new technologies appear, these trends will only accelerate. Disruption will rule the day – not as a "bug," but as a feature of business. *How many companies truly prepared strategically for such volatility?*

Whether boards and C-suites have truly accepted it, technology already shapes competition, market offerings and company futures - that's why digital strategists are essential. Digital strategists seek to project business models, processes and technologies with defensible arguments of how these trajectories impact each other.

Digital strategists likely do not sit in technology departments - they are probably not today's CIOs or CTOs. Such leaders have wide and deep understanding of their own industry. But they also understand adjacent – and disruptive – vertical industries. They understand digital technology. Most importantly, they can assess the *intersection* of business models, processes and technology trends. They're also good design and systems thinkers. They're not "fly-by" technologists: they can "talk the talk" with real technologists and also hold high credibility across business functions.

Above all, digital strategists must be incentivized to think creatively. They need their own teams. They're agile and rely heavily upon replaceable consultants to pursue work streams such as the Future of Work, emerging technology trends, vertical business models, acquisitions , innovation, and other activities that have absolutely nothing to do with operational infrastructure. *In sum, their ideas will challenge entrenched organizational structures and established ways of working.*

Three unconventional but unavoidable questions

Three questions can substantively help re-frame the strategic technology narrative:

Question #1: If "digital transformation" achieves all of its operating goals for the next three to five years, will your company still be strategically relevant?

"Transformation" means no going back. Otherwise, it's just yet another change management project. Or worse, digital transformation is a distraction that's really an operational fix, which is too often the case, not an investment intended to disrupt the

business model or even prepare for disruption, in spite of how it might be sold to stakeholders. When that's the case, there's no chance "digital transformation" will achieve strategic relevance.

Strategic digital transformation is about degrees of disruption, not modernization or incrementalism. The very idea of immediate transformation is flawed. By definition, digital transformation *is* disruption, and disruption requires staged planning, execution, feedback and scaling. Digital transformation, as it's practiced today, is not transformative. It's almost always modernization, which contributes little to strategic success. Are your digital transformation projects strategically relevant, or still just incremental improvements to existing, well-defined processes?

Question #2: Would an acquirer see operational *and* strategic value in your business?

When fundraising, entrepreneurs avoid operational valuation metrics like a pandemic. What they crave is strategic valuation where the numbers skyrocket based only on some measure of strategic speculation. With established companies, due diligence teams hope to find a strategic mind-set manifest in digital strategies that speak directly to profitable growth through market differentiation and disruption. Digital strategy *is* the only differentiator, especially as operational technology commoditizes as-a-service. How would your company withstand strategic due diligence? Would an acquirer see – and pay for – strategic value?

Question #3: Do you have a deep stable of professionals who can – separately – deliver operational excellence *and* strategize?

Is your organization aiming to alter how your industry operates or gain market share? Does current talent have the necessary knowledge to strategically leverage technology? Are the executives on board, or still live on Incremental Lane, far, far away from Disruption City? Or is "technology" defined and measured as an enterprise resource planning or customer relationship management application? Note that that operational and strategic talent pools are as different as the proverbial Venus vs Mars. Do you have cloud gurus ***and*** strategists? How good are they, really? Is the leadership team candidly asking and answering these kinds of questions?

Three strategic steps

There are volumes of playbooks about how to optimize operational technology. They're not the focus here. Strategic – not operational – technology will fuel competitive advantage, but how organizations deploy technology for ongoing strategic differentiation and profitability still depends on the foresight, courage and talent of key executives, board members and senior managers. Thinking about technology as "tools" or even "enabling" misses the strategic point entirely. So what steps might be helpful?

Step #1: Adjust Perspective

Fly over your business models and processes. Assess trajectories. How does everything look today? How will it look in five years? See any changes in your industry, your competitors, your business model? Competitive strategic requirements should be the filter through which all technology, marketing, sales, finance, talent and operations investments pass. *Where* you want to go (jointly informed by all business domains) will determine *how* you get there. Digital strategy is the new core competency. As operational technology moves to the cloud and increasingly commoditizes, profitable growth will come from a company's ability to think forward, which requires the right people organized in the right way – the first step.

Step #2: Staff, Organize & Strategize Differently

Technology should permanently split into two. One part should remain operational. This part is about wires, devices, applications, data bases and the cloud. These trains should run on time (though often don't). The other part should develop strategy. The parts are fundamentally and permanently different. Their objectives are different, their people are different, their management is different and their impact is different. Instead of calls for integration, standardization, and balanced scorecards, operational and strategic technologists should be separated and never share missions. In fact, all efforts to integrate operational and strategic technology should immediately stop, just as the strategic rehabilitation of CIOs and CTOs should also stop. The probability of failure increases the more we insist that this unhappy marriage continue. But most importantly,

there should be a shift in resource allocation so strategic technology is extremely well-funded and supported. Ideally, strategic technologists should live somewhere else, and follow the example of innovation labs leaving headquarters.[6]

"Offices of Strategy" and "Strategic Management Offices" are often dinosauric in their staffing and methodology. They're usually comprised of "incrementalists," not disruptors. Old stand-by methods, tools and techniques – like surveys, interviews, scenario planning, industry forecasts and the development of strategic planning pyramids – assume relative stability, that is, assume a linear – and therefore comprehensible – competitive playing field.

Titles like "strategic process integrator," "strategic architect," and "strategic process owner" all miss the point: digital strategy is propelled by non-linear, unstable and unpredictable events – all impacted by technologies defined by Moore's Law. In short, digital strategic planning is not a perfectly defined activity pursued by professionals with detailed job descriptions. The industry's obsession with "capability maturity models" makes the point beautifully. The whole notion of a process that moves from "ad hoc" to "repeatable," then "defined" on its way to "well-managed" and "optimized" does not apply to the development of digital strategies which are at best comprised of digital awareness and continuous efforts to ideate, test, plan, scale and launch, recognizing that the majority of ideas may fail.

Digital strategists track different activities to inform themselves about trends, competitors, products, services and profitable outcomes, such as what venture capitalists, hedge funds, competitors, new entrants, public markets, regulators and technology labs are doing every quarter. They accept, reject, mimic and exploit. They do not templatize the strategic planning process because templates by definition are repeatable and defined – which is precisely what digital strategies can never be. The number of actors (VCs, etc.), technologies (hardware, software, etc.), competitors (new and old) and even broad ways-of-working (The Future of Work) – and whose relative values constantly change – make digital strategic planning the most challenging activity faced by the modern corporation.

Step #3: Track New Metrics

Operational technology metrics are obviously easier to define and measure than strategic ones – which is why they remain "popular" (even as they often remain unsatisfied). Businesses have frameworks for measuring the performance of infrastructures, applications and networks, but very few for measuring strategic success. Which outcomes, rather than outputs, really matter in the long term?

New digital strategic metrics should be derived from the inspection of new work streams, such as The Future of Work, digital technology trends, business process automation, and innovation. Importantly, these workstreams must be well defined, credibly tracked and sufficiently funded. Since digital strategy assumes innovation, innovation performance metrics should be developed. The processes themselves should be organized around methodologies, such as stage-gating, which is as close to a template as digital strategic planning will ever get – noting that ideas pass stages based on quantitative ***and*** qualitative performance measures that matter.

Conclusion

Operational technology is commoditizing through cloud delivery, yet still consumes most of the money and mindshare of companies who too often mistake their "transformation" projects as strategic. Digital technology has already overwhelmed business models and processes. The imbalance between operational and strategic technology investments presents a huge risk to companies that see the world through incremental lenses. Digital strategists, who bear no resemblance to operational technologists, should rule the dynamic competitive future.

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Stephen J. Andriole Follow

Stephen J. Andriole is the Thomas G. Labrecque Professor of Business Technology at Villanova University, where he teaches and directs applied research in digital transformation, emerging digital technologies and AI and machine learning.

Noah P. Barsky Follow

Noah P. Barsky is an Associate Professor of Accountancy at Villanova University, where he teaches performance measurement, business risk management and financial reporting.