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ORGANIZING FOR A DIGITAL FUTURE

By Gabrielle Novacek, Rashi Agarwal, Sonya Hoo, Steve Maaseide, Benjamin Rehberg, and Liza Stutts

DIGITAL IS ON THE CEO agenda of established companies, and many CEOs approach the topic by asking two initial questions:

- Who should be in charge of digital?

- What is the best model for organizing digital?

These are relevant questions, but answering them too quickly will likely send a company down the wrong path. In their rush to go digital, companies often dive into a mix of projects and activities without having first developed a clear understanding of what they want to accomplish and how they plan to achieve those goals.

Companies are better off establishing a few overarching goals, selecting a digital model that is in tune with their current organization and capabilities, and then embedding digital carefully and strategically throughout the organization. To jump into the future too quickly is to risk frustration, failure, and waste.

Digital does not change the principles of organizational design and governance. But because the capabilities and cadence of digital work can differ so significantly from traditional ways of working, leaders must be thoughtful in their approach. Below, we offer a practical guide to establishing a digital organizational model and governance structure—including such issues as whether to separate digital into a standalone unit and whether to name a chief digital officer—for companies that began life in a brick-and-mortar world.

Acting with Deliberate Dispatch

Once digital is on a CEO's radar, the urge to act swiftly—for example, by appointing a chief digital officer with an ill-defined portfolio—is understandable. After all, accountability, responsibility, and momentum drive performance. But fast moves can backfire.

Digital covers a wide range of customer-facing, back-office, and shop-floor activities, including (among others) algorithmic decision making, microtargeting of customers

through artificial intelligence, use of software bots to automate clerical deskwork, and self-learning robots. Without clear goals, companies are likely to chase shiny objects that look exciting but may turn out to be subscale, redundant, or off point.

The same need for deliberation applies to organizational and governance issues. A company that fails to establish digital roles and decision rights is likely to end up with several of its teams pursuing similar incremental goals. And if the company establishes a digital operating model in a vacuum, it will inevitably generate friction among existing teams and functions. Accountability and oversight are common casualties when a company fails to think through organizational issues.

In other words, to say that a company wants to become digital is to start a conversation about a set of choices and decisions. Answers to three key questions—one involving strategy and the others focusing on organization and leadership—will help shape and inform that evolutionary journey. (See Exhibit 1.)
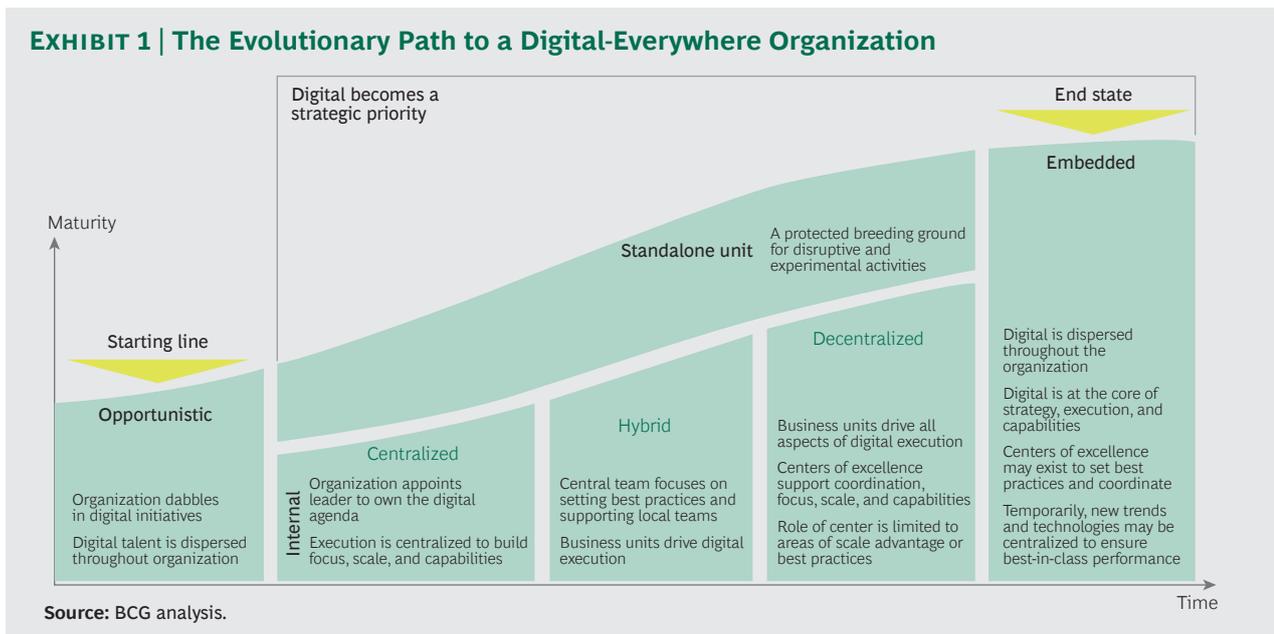
What Are the Company's Digital Strategy and Ambitions?

In the early days of electrification, companies retained factory layouts built around the original site of the steam engine, even though they no longer needed the old engine's mechanical connections to run machinery. History is now repeating itself. Many companies are digitizing the belts and pulleys of legacy processes when they should be thinking deeply and creatively about how to use digital to operate and organize in new ways that create new opportunities.

Powered by the exponential growth of processing power, bandwidth, and storage, digital differs fundamentally from earlier, linear business developments. It's not enough to sprinkle digital pixie dust here and there and declare victory. Companies must clearly define the ends that they are trying to achieve by digital means. At the beginning of this process, three subsidiary questions are especially important:

- **What is the company's overall ambition as an enterprise?** Digital should act in the service of that agenda, not as an effort tangentially or not at all related to it.

- **In what critical areas will digital most effectively accelerate or enable corporate objectives?** Most companies cannot immediately go digital across the entire organization. Instead, they need to establish priorities that reflect

Exhibit 1 | The Evolutionary Path to a Digital-Everywhere Organization

Digital becomes a strategic priority

End state

Maturity

Embedded

Standalone unit — A protected breeding ground for disruptive and experimental activities

Starting line

Decentralized

Digital is dispersed throughout the organization

Digital is at the core of strategy, execution, and capabilities

Centers of excellence may exist to set best practices and coordinate

Temporarily, new trends and technologies may be centralized to ensure best-in-class performance

Opportunistic

Hybrid

Business units drive all aspects of digital execution

Centers of excellence support coordination, focus, scale, and capabilities

Role of center is limited to areas of scale advantage or best practices

Centralized

Organization appoints leader to own the digital agenda

Execution is centralized to build focus, scale, and capabilities

Central team focuses on setting best practices and supporting local teams

Business units drive digital execution

Organization dabbles in digital initiatives

Digital talent is dispersed throughout organization

Internal

Time

Source: BCG analysis.

opportunity or (conversely) anticipate danger from disruption.

- **How digitally mature is the company in those critical areas today?** The company must have the right capabilities in place if digital is to work effectively. Digital skills are not fungible. A digital marketing specialist cannot manage robots on the factory floor.

Should the Company Build Digital Capabilities Within Its Business?

Once a company has defined its digital strategy, the next key question is organizational and relates to integration versus separation of digital activities: Should digital activities reside within or outside the current organization?

Building digital capabilities internally, within an existing hierarchy, is generally the easiest way to integrate digital activities into a company's strategy, execution, and talent development. If one goal is to embed digital in the company's fabric as quickly as possible, the internal option is the best—and most common—approach. But committing to the internal option leads to myriad related choices about where and how best to locate digital activities.

Often, the first question about digital organization that CEOs ask is whether they should appoint a chief digital officer. (See the sidebar "The Role of a Chief Digital Officer.") But that question is actually subordinate to a broader question involving three options: Does the company want to centralize its digital activities, distribute them throughout its businesses, or split the difference and create a hybrid model? (See Exhibit 2.)

If a company's strategy requires significant coordination and cooperation across businesses and functions, or if the company needs a big digital push, centralization may make more sense for digital activities and other functions. Likewise, if the company's current expertise or scale in digital is weak, centralizing probably makes sense. Finally,

THE ROLE OF A CHIEF DIGITAL OFFICER

The idea of having a chief digital officer is popular these days. Giving a single executive accountability for digital activities is appealing, but the success of a CDO depends on the organizational context. If a company's digital activities are highly centralized, having a CDO is likely to make sense; but establishing roles, responsibilities, and relationships with line businesses remains critical. Even if the company sets strategy centrally, execution will probably occur within the businesses, so upfront discussions about how to make the matrix work are essential. Such discussions are even more critical in companies that adopt a hybrid model in which line businesses have a strong say in digital strategy.

Other questions involve the chief digital officer's portfolio. Many companies limit their CDO's initial focus to commercial functions in order to drive impact quickly. A CDO who has unduly wide latitude may cover too much ground and risk losing effectiveness and focus.

A company with decentralized digital activities, on the other hand, is unlikely to benefit from naming a CDO to set digital strategy, since line businesses make those decisions. Within a decentralized company, a CDO could conceivably run digital shared services or centers of excellence, but it is unclear whether the company would need a C-suite executive for that role.

Figuring out these issues upfront will accelerate a company's digital activities in the future.

Exhibit 2 | How to Think Through Digital Centralization Versus Decentralization

TO WHAT DEGREE SHOULD THE COMPANY CENTRALIZE?

MODELS   CENTRALIZED   HYBRID   DECENTRALIZED

CEO   CEO   CEO

CDO Function Function   CDO Function Function   Function   Function
                                                         CoE

DRIVERS OF
CHOICE

High ◀————— Complexity of digital strategy —————▶ Low

Low ◀————— Level of digital maturity —————▶ High

High centralization ◀————— Current enterprise governing model —————▶ Low centralization

● Size indicates level of capability and resourcing

Source: BCG analysis.
Note: CDO = chief digital officer or head of a business unit; CoE = digital center of excellence.

businesses that run on a command-and-control model tend to gravitate toward centralization.

A centralized approach has strong visibility with senior leaders, meaning that the digital team will likely have the resources and people it needs to create new capabilities and develop scale and global practices. On the other hand, if it establishes a central team, a company runs the risk that line leaders elsewhere in the organization will view that team as an ivory tower out of touch with the grind of business. To avoid this perception, the team must constantly engage with line leaders and work on initiatives that those leaders consider relevant.

The profile of companies that decentralize digital is the mirror opposite of those that favor centralization. A decentralized strategy does not rely on coordination across boundaries, and organizational decision making is distributed across the company. Line businesses are responsible for their digital activities, with support from one or more centers of excellence.

When digital becomes more fully embedded in the organization, businesses throughout the company will find it easier to develop a digital culture and to recruit digital team members rather than digital specialists who are unaccustomed to having frontline responsibilities. The downside to this

decentralized approach is that digital may not have an advocate in the executive suite, putting digital at a disadvantage in competition with other company priorities. In addition, global practices and organizational standards may fail to develop.

Under a hybrid approach, line businesses continue to run digital activities, but they work closely with the center on best practices and other forms of support. Digital has support at the top, and—if the center is responsive—the company can maintain a good balance between global consistency and local initiative. As in the decentralized model, however, digital in a hybrid system is at risk of competing with and losing out to other priorities.

Companies that adopt a hybrid approach need to create effective reporting lines and a clear delineation of decision rights and accountability. Each part of the matrix must have a clear organizational mandate for digital activities.

How Should the Company Organize a Standalone Unit?

Integration is not the only option. Some companies create a standalone digital unit that operates independently of the day-to-day business. This makes sense when a company's digital ambitions require entirely new business models and capabilities or

when those ambitions are disruptive to the core business. A standalone digital unit may also make sense when the main organization resists change or when the company is unlikely to attract digital talent to its core.

The standalone option has some positive attributes. It can act as a breeding ground for new ways of thinking and working, and it can enable companies to move quickly at the start, with less risk of failure. Digital integration with a standalone unit takes longer, but that may be the price of moving forward if the core business is initially inhospitable.

Standalone digital units may look very different from one another. Although companies deliberately set up these units outside the hierarchy, the units may still mirror the hierarchy's traditional structures, processes, and incentives. The standalone approach makes sense when the digital activities are unlikely to take root at scale within the hierarchy.

At the other extreme, some companies deliberately design standalone units to function as digital natives. Consequently, these units tend to adopt the policies and practices of a startup rather than of an incumbent. This approach makes sense when a company wants to build a business or a set of activities that the company is unlikely in the medium term to fold into a line business.

Embedding Digital in an Organization's DNA

To some degree, the digital organizational and governance issues described earlier are transitional. In the long run, companies should aim to fully embed digital in day-to-day operations. This is what digital natives such as Spotify and Zappos have done since birth and what ING, a traditional

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BBVA'S JOURNEY

In 2006, Francisco González, the chairman and CEO of BBVA, a Spanish bank, declared his vision to "build the best digital bank of the 21st century." (See *The Power of People in Digital Banking Transformation,* BCG report, November 2015.) As González wrote in the *Financial Times,* "Banks need to take on Amazon and Google or die."

The resulting transformation has traveled from the top of the organization to the bottom. The president and CCO, for example, formerly ran the bank's digital unit, and many executive-committee heads have extensive digital experience. Today, digital is embedded in all of BBVA's major business units.

BBVA's transformation journey comprised several stages. First, the IT department focused on modernizing business systems. The bank created several digital centers of excellence to address such high-priority issues as mobile banking, big data, and advanced

analytics. In 2012, the digital business unit reporting to the CEO came to life. Although the unit did not have P&L responsibility, its mission was to lead the digital agenda across the business and the bank.

In 2015, the bank pushed the digital agenda to its business units. In order to present a unified end-to-end customer experience, the bank created a customer solutions unit that uses an innovation lab to conduct real-time customer trials.

Organizations become digital not to catch a fad but to improve customer experience, financial performance, and competitive advantage. On all three fronts, the transformation has paid off for BBVA. Digital transactions make up 15% to 26% of the bank's total transactions, depending on the geographic market. Costs for these transactions are lower by nearly half, and satisfaction, as measured by net promoter scores, has risen.

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global bank headquartered in the Netherlands, has implemented with its agile approach. Discussions about digital strategy and digital capabilities will fade away as digital strategy becomes a company's strategy, and digital talent will spread throughout the organization rather than residing within a priesthood of experts. The CEO will be the de facto leader of digital efforts. Digital will be so central to the company's strategy and execution that it will seem invisible. (See the sidebar "BBVA's Journey.")

If history is any guide, however, the journey to organize for digital will be an ongoing one. Companies will continue to swing between centralization, when they want state-of-the-art capabilities, and decentralization, when they want wider dispersion of expertise and capabilities. In the digital age, we anticipate that this accordion will continue to play as new trends and technologies emerge.

About the Authors

Gabrielle Novacek is a partner and managing director in the Chicago office of The Boston Consulting Group and a member of the firm's global digital transformation leadership team. She has worked extensively in the consumer industry, focusing on retail strategy, transformation, organizational design, and change management. You may contact her by email at novacek.gabrielle@bcg.com.

Rashi Agarwal is an associate director of the People & Organization practice in the firm's New York office. She is an expert in digital transformation, shared services, and organizational design. You may contact her by email at agarwal.rashi@bcg.com.

Sonya Hoo is a principal in BCG's Washington office and is active in the Consumer and People & Organization practices. She has worked extensively in the areas of strategy, organizational design, and change management. You may contact her by email at hoo.sonya@bcg.com.

Steve Maaseide is a senior partner and managing director in the firm's Washington office and a core member of the Consumer and People & Organization practices. He has worked extensively for packaged goods, consumer services, and retail companies and has led large transformation, restructuring, and cost reduction efforts. You may contact him by email at maaseide.steve@bcg.com.

Benjamin Rehberg is a partner and managing director in BCG's New York office and the global leader of the software and agile transformation topic. He specializes in technology and operational issues in the financial services industry. You may contact him by email at rehberg.benjamin@bcg.com.

Liza Stutts is a principal in the firm's Boston office. She focuses on people and organization topics, with a specialty in leadership and talent issues. You may contact her by email at stutts.liza@bcg.com.

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