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Leadership challenges in digital transformation

R&D report performed by PwC for KS



The study illustrates what it takes to succeed in digital transformation

Digitization is high on the strategic agenda in the municipal sector

KS presented a new digitization strategy for the municipal sector 2017-2020 in the spring of 2017, with the vision: Good and available digital services strengthens dialogue with citizens and businesses and provide good communities. In addition, Meld. St. 27 (2015-2016) Digital agenda for Norge formulates five main priorities for the national ICT policy, which are also valid for the municipal sector: the user in the center, ICT is a key input for innovation and productivity, enhanced digital competence and participation, efficient digitization of the public sector, good privacy and good information security.

The municipal sector is dependent on digitization to perform more for less

The Office of the Auditor General of Norway's report from 2016 on digitization of municipal services points out that the municipal sector has overall come short in the digitization process. Today's delivery model in the healthcare sector will require an additional 33,000 full time equivalents in 2026. With less resources and increasing demand for services, one has to change work processes and the way the municipalities perform their work. The use of new technology in this context will be crucial. By 2017, a large part of the population is already "digital natives". That means they know no other reality than smartphones, the Internet and tablets. This requires innovation from the municipalities in terms of interaction and user dialogue.

There is a need for knowledge of what is required to succeed in digitizing in a municipal context

This study aims to illustrate what is good handling of the role of employer in digital transformation and what opportunities and challenges the employer meets in the efforts to achieve the desired gains of digitization.

The case organizations:



BÆRUM
KOMMUNE



BERGEN
KOMMUNE



SpareBank 1
SR-BANK



TRONDHEIM
KOMMUNE

P Trondheim
parkering



Oslo kommune

The findings in the report are based on a study of digital transformation in seven case organizations

The project was conducted as a **case study of a total of seven businesses** that were selected based on a qualitative assessment of:

- whether the business has come a long way in its digital transformation
- whether the business has characteristics that are typical of a digital organization
- whether the business has gained experiences that the municipal sector can learn from

In a municipal context, a **digital business** is an organization that uses technology to solve its social mission in better and more efficient ways. A digital municipality puts the citizen in the center, has standardized and automated a number of processes, uses data as input in its service, and employs short and experimental development projects.

Although the case organizations hardly consider themselves to be fully digitized, their experiences provide a basis for identifying some **key success criteria** to succeed in digital transformation. These success criteria relate to management, employee involvement, organization of development activities, and approach to benefits realization.

Good advice to succeed in digital transformation



Political and administrative senior management must take active ownership of the digital transformation

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Digital transformation management is a top priority. There is a big ownership in senior management. We have never dedicated as much time to this as we currently do.

NAV

The digital transformation must be clearly rooted in the chief municipal executive's management team, and **both political and administrative management must take active ownership of the municipality's digitization**. This requires a recognition that digitization is both a necessity and represents a significant opportunity for the municipalities.

Wide **rooting in the senior management has not always been present from the start** in the case organizations, but all of them have had a certain anchoring of the digitization efforts at the management level, through support from one or more managers. This has enabled the implementation of smaller projects and pilots, which has highlighted the potential of digitization and helped increase the management team's understanding and digital maturity.

The willingness to invest in digital transformation has grown in line with enhanced understanding of the possibilities inherent in new technology and the risks associated with not using the technology. Over time, a **common sense of the importance of digitization has been developed** and an understanding of what actions digital transformations require.

All employees must be involved in the transformation processes

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We have some “gatekeepers” who front the opinions of the grass roots. These are people who have not necessarily been assigned any specific role, but who are not afraid to speak their mind. It has been crucial to involve them in the process in a good way.

TRONDHEIM PARKERING

The involvement of middle managers and employees is crucial for the success of digital transformation. Through involving union representatives and employees, the case organizations have experienced that the understanding for the need to change has increased. Decisions based on involvement have greater legitimacy, while involved union representatives and employees take care of an important information and motivation function in the entities where the changes are to be implemented. The case organizations also emphasize that involvement of union representatives and employees often helps to create better solutions as it brings in new perspectives.

Many of the case organizations have had trouble reaching out to the entire organization and create a momentum in the digitization work. The **key role of middle management** is highlighted. The middle managers are close to the employees and can motivate and follow up in the day by day. The senior managers must therefore take responsibility both to be clear about what is expected of the middle managers, but also to provide the middle managers with the right prerequisites for handling the transformation. Developing the middle managers, by strengthening both their digital skills and their restructuring expertise, is emphasized as an important priority.

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The role of change agents is mostly about the ability to communicate, not about technical competence. They should be change agents for transformation, not for technology.

OSLO KOMMUNE

Give enthusiasts and change agents leeway

Employees with knowledge and commitment to digitization should be given leeway, recognition and support, especially early in the process when the digitization takes its form. In most case organizations, much of the early digitization efforts were driven by so-called enthusiasts, ie. employees who, through their dedication, attitude and initiatives, have been promoters of digitization efforts.

These are typically individuals who have been able to engage and convince others of the possibilities of digitization. **The enthusiasts have often launched pilot projects with good results**, thereby creating success stories to build on.

When a larger part of management has become aware of the potential of new technology, the good work of the enthusiasts has been put into system and reinforced. Several of the case organizations have done this through the **use of change agents**.

The change agents can be both middle managers, elected representatives or ordinary employees. Change agents have important common features such as great technology interest and high motivation to help create the changes that the projects facilitate. It is also emphasized that they have a distinct ability to **translate the meaning of technology** into a harmless, understandable and relevant language.

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Change in organization and competence needs has been gradual, with focus on mastery through competence building and custom tasks.

TRONDHEIM PARKERING

Digitization must be linked to developing a culture of learning and innovation

A digitally competent organization is characterized by a culture that accepts and promotes change. **Developing a culture of innovation and learning takes time**, and for the case organizations that have been examined, digital transformation seems to have been a driving force for, rather than a result of such a culture.

Few of the case organizations can point to the use of specific measures to develop and strengthen a learning and change culture beyond creating motivation through involvement and competence initiatives. Increasing levels of experimentation, innovative procurement and use of service design help strengthen the learning and change culture.

It may seem that a culture of innovation, change and learning is not a prerequisite for initiating digital transformation, but something that one should work with in parallel. **Implementation of change processes usually contributes to more positive attitudes towards transformation**, which in turn provide the basis for innovation and learning.

Digital transformation is about reviewing today's work processes, governance models and organization

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Digitization must be part of the business model and strategy. Avoid sharp distinction between technology and organizational thinking.

SR-BANK

To achieve effects of digitization, work processes must be changed and the individual employee must be motivated to do something new. Today's public sector delivery model is characterized by likeness in the service offering, which implies less targeted services, partly characterized by over-servicing.

Technology can be used to provide services in a different way by enabling the citizen to perform all or part of the service himself and through providing personalized and anticipatory services.

However, it is easier to implement new systems than to change working methods and organization. It is evident that the case organizations mainly view **digital transformation as an organizational development process**. This does not mean that they do not recognize technology as the driver behind the changes, but that they have realized that introducing new technology alone will not lead to the desired result.

The results will only be achieved if you change the way the organization performs its tasks and succeed in facilitating continuous learning.

Recruit expertise and facilitate continuous learning

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Shift in competence needs is shown through the municipality's recruitment which includes employing a business architect and a service designer in the electronic services program.

OSLO KOMMUNE

Digital transformation is about enabling the organization to exploit new technology. This places **new demands on competence** in several areas.

The case organizations state that there is a need for **increased technology competence in all parts of the organization**: managers must be able to understand how technology can be utilized to solve the business's tasks in new and better ways, the IT department must have knowledge of new technologies and technology trends, and all employees must be able to adopt digital tools and solutions.

In addition, the need for **competence in new areas** such as service design (because digitization often involves developing new or improved services) is highlighted, lean (because digitization usually requires change in work processes), privacy (because the use of new technology and compliance with stricter regulations give new requirements for handling personal data) and project, program and portfolio management (because the development of digital solutions must be targeted, structured and planned).

In addition, some employees will be challenged to **acquire brand new skills** as tasks are automated and rationalized. This is especially true for employees with manual assignments without the requirements for specific academic competence.

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Benefits realization have been demanding to implement because the requirements set in advance have not been clear enough and the actual realization has not been well enough planned. The work on planning and realizing benefits has evolved over time

BERGEN KOMMUNE

Benefits must be planned early and followed up over time

The case organizations **highlight benefits realization as one of the biggest challenges** associated with digital transformation. A fundamental feature is that digitization has primarily generated gains for users in terms of simplification and improvement of services. There has been less work to gain rewards for the organization.

Experience from the case organizations shows that the **benefits realization management is developing over time**. As the portfolio of digitalization initiatives has increased, the demands for more systematic management of benefits have also become clearer.

In order to succeed in benefits realization, the case organizations emphasize the **importance of good planning**, so that executive units receive clear expectations of which benefits that should be realized.

The managers experience that the benefit realization itself is where the challenge arises. The various case organizations have experienced several different challenges, each of which has led to a lack of benefits realization. To avoid this, it is important to have a **realistic image** of the employee's digital expertise and the timescale for implementation.

Project, program and portfolio management are important tools for digital transformation

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We will be out to citizens as soon as possible to get feedback right away. Citizens' orientation and user design were crucial to succeed.

OSLO KOMMUNE

It is a common feature for the case organizations that they have centralized the digitization responsibility, and several have done so through establishing **separate units for program and portfolio management** of the digitization efforts. Such an organization facilitates the standardization and professionalization of methodology and tools for implementing development projects. Program and portfolio management ensures clear prioritization and resource management, and **enhances the momentum in the digitization efforts**. Through creating programs and projects outside operations it is easier to handle development and operations in parallel.

The experiences of the case organizations show that there has been a turn towards designing service deliveries with the user in focus through the use of service design. The need to be met is governing. This has also resulted in a move **away from large, comprehensive requirements specifications to short development processes** with the intention of testing solutions as quickly as possible.

Several case organizations have used **direct user involvement** in testing solutions. Flexible processes where solutions are developed and tested in parallel, and where service design and user involvement are important components should replace strictly structured and carefully planned processes with detailed requirements specifications and long-term implementations.

IT processes and procurements must be centralized in the municipality

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We centralized the IT and digitization and IT procurement departments early, which began already in 2014

BÆRUM KOMMUNE

Centralized decision-making authority relating to management, development and operation of IT is a prerequisite for a coordinated and unified approach to digitization. Several of the managers in the case organizations emphasize standardized IT infrastructure as a prerequisite for building a digital organization

Furthermore the assessment shows that the **systems responsibility is often transferred from the specialist sections to the IT section**. This enables the specialist sections to focus on adapting and improving the work processes.

The allocation of responsibilities between the specialist sections and the IT section is also reflected in the case organizations' **organizing of IT procurements**. These are made either by or in close collaboration with the IT section, and not by the sections that will use the systems. The goal is to secure good interaction between the business systems. To ensure holistic management of the IT portfolio, both responsibility and budget must be centralized.