DISRUPTING THE DISRUPTORS: HOW HUMAN CAPITAL MAKES OR BREAKS DIGITAL INNOVATION

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Published in

The Digital Transformation Playbook - What You Need to Know and Do
Thinkers50 - London - United Kingdom – June 2023

The London School of Economics Business Review (Adapted Version)
London – UK – October 2022

Netflix CEO Reed Hastings, considered to be one of the greatest disruptors in the technology sector, suddenly found himself among the ranks of the disrupted. In its 2022 Q2 financial earnings report, Netflix confirmed a net loss of 970,000 subscribers, less than the two million it had predicted but still more than the video streaming giant had ever experienced in a six-month period (Deggans, 2022). As I write this article, over the past year Netflix shares have plunged by 62% and, in a bid to recapture subscribers, the company is now preparing to launch a new lower-cost streaming tier that features four minutes of advertisements for every one hour of content (Canal, 2022).

Hastings is not a casual bystander to the fall in stock price. By some estimates, Hastings personally lost more than US$650 million from the Q1 depreciation stock depreciation on his five million shares (Fabino, 2022).

If the market watchers are correct, there could be more dips in the future (Exhibit 01)

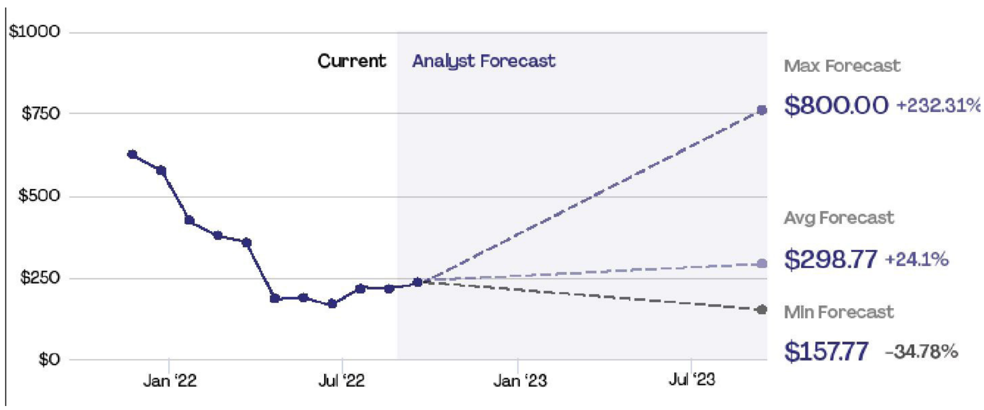

Exhibit 01 - Analyst price target for Netflix stock (NFLX) (Adapted from WallStreetZen.com).

Given his past successes, when Hastings talks, the technology sector listens. So, it was with great interest that in the spring of 2022, Hastings began to do his rounds in the technology media, revealing new plans to create lower-cost subscription tiers that feature advertising, much like some of Netflix's competitors are already doing. "We're going to figure this one out," Hastings said in one interview. "We've got a great team. We lead by a significant margin in streaming, and streaming is continuing to grow around the world" (Brodkin, 2022).

While all of that may be true, the skeptics who were selling their Netflix stock seemed to be preoccupied not with what Hastings was going to do, but why he hadn't done many of those things a long time ago.

As the acknowledged world leader in the subscription video on demand (SVOC) industry, Netflix appeared to be poised to solidify its position when billions of people around the world were forced to shelter at home to escape COVID-19.

Social and economic restrictions, and the vast library of original and previously broadcast content available through Netflix, seemed like a match made in heaven.

However, new streaming competitors were arriving on the scene on almost a monthly basis. Suddenly, Netflix found itself in intense competition for subscribers. Add in password sharing—a workaround that Netflix estimated allows 100 million non-subscribers to access its streaming library—and you can see how and where the trouble started brewing.

Today, Netflix continues to lead the streaming pack but its advantage has nearly evaporated (Figure 2).

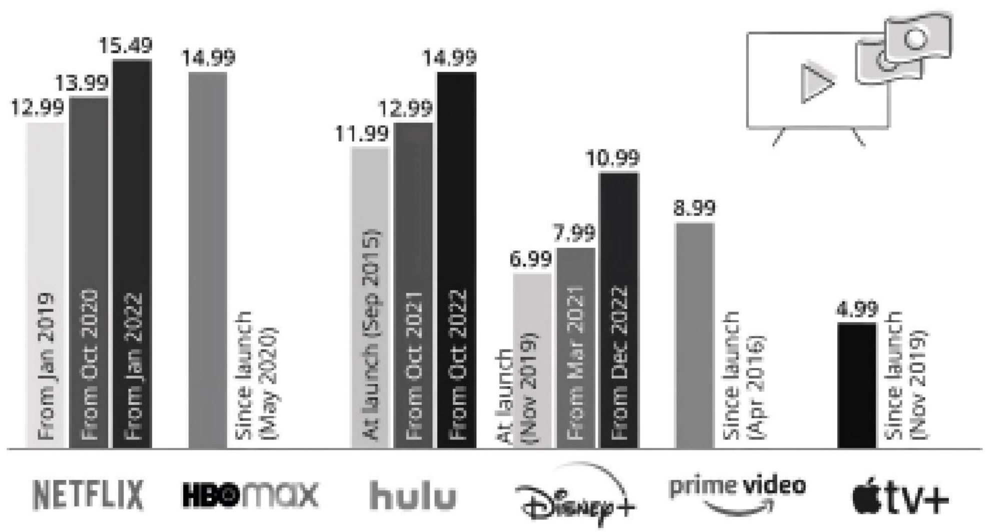

Exhibit 02 - Prices for standard plans including ads-free, high-definition streaming, excluding bundles. (Source: Company announcements, Statista).

There are a number of different ways to view the Netflix dilemma. The company continues to represent one of the greatest digital transformation success stories in history, having bet early on video streaming replacing the DVD rental industry. Now, however, the company seems unsure about where its business model is going and how to maintain its dominance.

The circumstantial evidence suggests that Netflix ran into trouble because it stopped looking for new ways to disrupt the marketplace, which allowed competitors to eat away at its business model. More importantly, Netflix did not adequately anticipate how people—primarily its customers but also its employees—would react to increased competition.

It's also unclear whether their current strategy—tempting subscribers with lower monthly fees while also asking them to endure advertisements—will be the ticket to redemption for Hastings. The original value proposition for Netflix was as an ad-free alternative to broadcast television.

It all adds up to an inescapable conclusion: Whether you are just heading out on a digital transformation journey or trying to find ways to maintain your role as a dominant market disruptor, it is the human factor, not the technology that will make or break you. This is a point that somehow continues to evade many business leaders.

The Enduring Failure Rate of Digital Transformations

The high failure rate of digital transformations was a problem long before the pandemic arrived. Most of the major business consultancies—including Boston Consulting Group (BCG), McKinsey & Company, KPMG, and Bain & Company estimated the failure rate for digital transformations at somewhere between 70% and 95%.

Why the failure rate is so high is a point of enduring debate. Some experts point out that digital transformations—projects that require huge financial, technological, and human resources to bring to fruition—take many years to deploy, making them intensely vulnerable to the volatility of market conditions and unanticipated events. Wars, natural disasters and, yes, pandemics, are so seismic in their consequences, they can derail even the most thoughtful transformation strategies.

However, dig deeper and you begin to see that many organizations simply have flawed assumptions about what a digital transformation involves. Many business leaders see it as the deployment of some form of technology. The deeper thinkers in this area debunk that as a dangerous myth that often leads to disaster.

IT researchers Thomas Davenport (Oxford Saïd School of Business) and George Westerman (MIT Sloan School of Management) wrote a seminal analysis of digital transformation failure in 2018. They discovered the businesses that wilted or stumbled in the face of digital transformation had a number of common qualities. They found too many companies wrongly assumed digital transformation would be a cure-all for all the challenges and flaws in their organizations and business plans. In fact, the researchers suggested that, far too often, struggling organizations think their salvation will be found simply by introducing some sort of new technology. Digital capability, the researchers found, is just one of a number of factors (product success, financial market conditions, natural or human-made disruptions) that ultimately determine a company's success or failure. More importantly, Davenport and Westerman noted that many of these failed enterprises were under the impression that digital technologies were plug-and-play solutions. They contend that it is about more than technology (Davenport &

Westerman, 2018). On this point, Davenport and Westerman hit on what I think is the biggest missing ingredient in digital transformation: people.

Digital Transformations Fail Because Organizations Still Don't Understand People

To better understand the poor record that many public and private organizations experienced in the commission of major restructurings or transformations, the Project Management Institute created the Brightline® Initiative, a partnership involving some of the world's leading consulting and human capital firms, leaders in pharmaceuticals and communications, along with leading business schools. The idea was to help senior leadership in both the public and private sectors recognize that people form the link between strategy, design, and delivery: they turn ideas into reality; they are the strategy in motion.

To emphasize the importance of human capital, and to acknowledge the failure to take full advantage of this critical resource, Brightline® created its People Manifesto. In short, the manifesto is a series of important concepts that amplify the importance of human capital in project management and a blueprint for how organizations can re-imagine their culture and strategy execution. There are four major pillars to the manifesto:

> *Pillar 1:* Leadership is overemphasized. Most of the business world understands that strong leadership is necessary for success. However, it is just as important that senior leadership knows not only when to lead, but also when to follow. This is also a recognition that strong leadership is more of a liability than an asset if the people in your organization are not motivated to follow.
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> *Pillar 2:* Collaboration is important, but it's not everything. Promoting a collaborative team culture, while breaking down silos and encouraging a one-company mindset, are some of the most emphasized elements of organizational culture. However, it's important to remember that good teams are an assembly of people with different but complimentary skill sets. The fact is, not all initiatives require a "team effort." Sometimes, individuals should be allowed to do what they do best, and drive a project forward on their own.
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> **Pillar 3:** Culture is not built; it must be cultivated. So many organizations and consultants talk about how to "build" a culture of success. In fact, culture is a dynamic and living organism that is the product of the tension between individual behaviors and responses. To fully align culture with strategy, there must be a shared

sense of purpose and trust. A safe, productive and innovative culture cannot be left to chance; it must be cultivated by putting the right people in the right environment.

Pillar 4: People act in their own self-interest. So many leadership advisors caution against self-interest, describing it as a dangerous and destructive force. And, while that may be true, you cannot simply ban self-interest; it is an essential and enduring part of the human condition. The best organizations recognize how self-interest sometimes derails project management and craft responses that are specifically designed to shift individual interests, mindsets, and behaviors.

How to Harness the Power of People to Drive Digital Transformation

The principal focus of digital transformation will almost always be on the technology; yet, it is the ability of the people of an organization to absorb and exploit that technology, which makes or breaks a transformation. In short, all that leading-edge technology will be squandered unless an organization can harness the power of human nature.

In 2019, author and transformation expert Benham Tabrizi and colleagues from Minicircuits, a global manufacturer of radio frequency and microwave components, identified five key lessons from failed digital transformations. Two of those five involved overlooked considerations around human capital.

> "Why do some DT efforts succeed and others fail?" Tabrizi and his colleagues ask in the introduction to an article in the Harvard Business Review. "Fundamentally, it's because most digital technologies provide possibilities for efficiency gains and customer intimacy. But if people lack the right mindset to change and the current organizational practices are flawed, DT will simply magnify those flaws" (Tabrizi et al., 2019).

The best organizations all have the following similar approaches to digital transformation that, when applied appropriately, create the greatest chances for success:

1. Don't leave people in the dark. When digital transformations are designed they often leave out a communications strategy on the basis that key information on what, how, and when should only be available to some people on a need-to-know basis. The fact is, everyone affected by the transformation needs to know. Make sure

a communications strategy is part of the inception of the transformation. Don't allow your leaders to hoard all the information and leave the majority of people in the dark.

2. Focus on quick wins rather than a big bang. Some of the most promising digital transformations have come undone, because leadership decided it could not reveal part of the transformation until the entire initiative was ready to go. However, delivering quick wins—partial implementation or an iterative rollout of a larger project—allows people to see the transformation vision in real time. It takes the conceptual and makes it the concrete. That will build support and enthusiasm. Keeping everything under wraps until everything is completed will only cultivate anxiety and dissent.

3. Remember, it's not just the what, it's the why. Are you undertaking a transformation just to keep up with competitors? Or, perhaps the end goal is to completely reinvent what you are doing and how you are doing it. You need to explain to your people why you are taking this journey and—most importantly—what the consequences will be for your workers. Give people time not only to accept what is happening, but plan for the future. Even if that future is not with your organization.

4. Confront fear head-on. The first feeling that many people will have when they hear the words "digital transformation" is fear. They will fear the loss of their jobs and livelihoods, perhaps to some form of technology that will be able to do exactly what they are doing, but cheaper and faster. Or, the loss of a job they love. They also fear that they do not have the capacity to learn new skills to future-proof their careers. Organizations must acknowledge this fear and speak to it upfront in any transformation. Fear that is left to fester can only threaten the successful completion of any transformation. Remember, in any digital transformation, technology is the easy part; changing mindsets and behaviors is the real challenge.

5. Always remember the threats posed by unforeseen events. With global pandemics, climate change, and geopolitics, we are reminded that life is volatile and unpredictable. So, the business model of the future that you created today may no longer be viable in six months. Organizations must be agile and adaptable. They must build contingencies into their digital transformations that allow for

unforeseen events and quick changes in direction. Do not forge ahead with an outdated plan because you're afraid to admit conditions have changed. Adapt and survive.

Even as New Technologies Arrive, the Importance of a Skilled and Motivated Workforce Cannot be Ignored

Trying to find the best way of using technology to build a business plan for the future can seem like a daunting task. Which technology and applied in what fashion? Do I need to provide employees with better digital tools or start replacing some of them with artificial intelligence (AI)–inspired solutions? Fortunately, some the world's most successful technology companies have actually shown us the way: to become a true disruptor, you must involve equal parts technology and human capital.

With every new digital solution or tool, there must be skilled and creative human hands helping people decide how best to use it. Yes, digital technologies and machine learning (ML) are replacing the human touch in some jobs. That is as inevitable as any future business trend. But AI won't replace all jobs, which means you need the right people with the right skills to help you extract the greatest value from any digital investment.

The future is bright for businesses that understand the need for more and better concurrent investment in technology and human capital. For those who do not grasp that equation, there will be a short, sharp journey to business oblivion.

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