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Special Edition: ~~The eSeries IV~~



No pain, no gain

Solving the riddle of e-organization

Outlook

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Joe W. Forehand, Managing Partner & CEO
James E. Murphy, Global Managing Director,
Marketing & Communications

David Cudaback, Editor-in-Chief
Letitia B. Burton, Senior Editor
Jacqueline H. Kessler, Associate Editor/Copy Chief
Laura E. Peddy, Associate Editor/Operations

Contributing Editor
Judith S. Tykocinski

Editorial Operations
Phyllis S. Kennedy, Carolyn Shea

Design & Production
Flinchum Inc.

For further information about *Outlook*
or Accenture, please contact
Marketing & Communications:

In the Americas
1345 Avenue of the Americas
Suite 18095
New York, NY 10105
USA
+1 917 452 2804
+1 917 527 5387 Fax

In Europe/Middle East/Africa/India
60 Queen Victoria Street
London EC4N 4TW
England
+44 20 7844 4000
+44 20 7844 4444 Fax

In Asia Pacific
141 Walker Street
North Sydney NSW 2060
Australia
+61 2 9005 5000
+61 2 9954 3484 Fax

On the Internet
www.accenture.com

By e-mail
Outlook@accenture.com

We welcome your comments and questions.
Please contact us at:
david.cudaback@accenture.com
letitia.b.burton@accenture.com
jacqueline.h.kessler@accenture.com
laura.e.peddy@accenture.com

The Long View

Getting "e" into your business



Joe W. Forehand
Managing Partner & CEO
Accenture

The digital economy has presented an incredible array of opportunities for organizations of all kinds, from traditional companies to the countless startups and spinoffs that have exploded onto the scene. All these companies have a common challenge—to harness effectively the power of the Internet for better and faster business results—and a common goal—to add significantly to the value they create for their clients, customers and shareholders.

But as the recent struggles in the dot-com sector have made clear, mastering e-business is not easy. It can be done, however. In this special edition, the fourth in *Outlook's* eSeries, we focus on the experiences of established companies that have positioned themselves successfully in the new economy. We look at how these organizations—which we refer to as “dot corps”—are carrying out and benefiting from major investments to e-enable their capabilities and to launch Internet ventures.

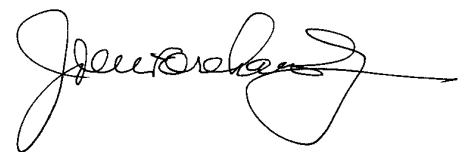
Our research has found that to emerge as winners, companies must pass through a stage-by-stage evolutionary process to effectively integrate an online capability into a traditional business. The authors describe the organizational formula that is key to success in the new economy—a set of six elements that established companies must master to successfully navigate this Internet integration lifecycle: leadership, governance and decision making, employee skills, company culture, performance metrics and organizational structures.

Organizing for the new economy is a matter of reinvention—a subject

close to our hearts at Accenture. We have transformed our business fundamentally in the past two years to stay relevant to our clients and to the marketplace. We are no longer simply a consulting firm but instead a growing network of businesses, building from our strengths in client service while broadening our range of capabilities. We are also focused on helping our people succeed and providing an environment that brings out our best talents, ideas and skills.

Like the organizations described in this study, our transformation has come in stages. And while we believe we have the right strategy and structure, we have built in flexibility for the continuous change called for in this new marketplace. This willingness to change makes the challenges of this fiercely competitive business environment less daunting and clears the way for seizing those digital opportunities. We have witnessed this not only in our own organization but also as we have helped our clients transform their businesses.

I hope you will find this special edition relevant as you think about how to harness innovation and new thinking in your organization.

A handwritten signature in black ink, appearing to read "Joe W. Forehand". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Putting the pieces together

A little more than a year has passed since *Outlook Special Edition* introduced the eSeries. Our goal was to identify and then explore, in depth, aspects of e-commerce that are critical to the success of any online enterprise. We began in May 2000 with a look at a remarkable new market mechanism; in July the series turned its attention to the effective management of information, that essential raw material of the new economy; and in September we focused on governance.

Quite a bit has happened in the meantime—for example, the humbling of the Nasdaq, which is often seen as a kind of leading indicator of the health of the new economy. Yet the crash of many Internet startups notwithstanding, e-commerce is here to stay. Business conducted over the Internet is projected to be worth more than \$7 trillion by 2004. Clearly, online capabilities have become an absolute must—not only for new ventures but for established companies as well.

This latest installment in the eSeries concentrates on that much larger sector of the economy dominated by traditional companies with incumbent market positions. They have embraced the Internet, to be sure, but they are finding that successfully integrating e-business into what they do and positioning themselves in today's economy are complex propositions—riddles, in effect. The solution, according to our authors: Get the fundamentals of organization right.

Recalls Eileen Bedell, a partner in the Accenture Human Performance service line and one of this issue's

four authors, "After nearly a year's work with clients, what began to emerge, at least anecdotally, was that organizational issues were more likely to affect the pace of the evolution of their e-businesses than technology challenges."

But Bedell and her colleagues wanted to move beyond isolated client case studies to a rigorous testing of their hypothesis. "To go from storytelling to insight," as she puts it, the Accenture Human Performance service line commissioned a major e-organization research project. The four-month cross-industry study included quantitative analyses at 33 companies in North America and Western Europe and interviews with roughly 200 executives to determine what factors had contributed to their success in e-commerce.

Joining Bedell are names that regular readers will recognize: Charles Kalmbach coauthored "Dispelling the myths of alliances," the first issue of *Outlook Special Edition*, while Joanna Horsfall and Brian Pappas contributed to the third in our eSeries, "Governance at eSpeed." It's an impressive lineup, and we think you will find the insights they bring to "Solving the riddle of e-organization" compelling.

David Cudaback
Editor-in-Chief

Earlier editions of the eSeries—"Endless shelf space," "The information edge" and "Governance at eSpeed"—are available electronically on our website. Go to www.accenture.com/Outlook and select "Outlook Article Index."

Contents



No pain, no gain: Solving the riddle of e-organization

By Eileen H. Bedell, Charles F. Kalmbach Jr., Joanna Horsfall and Brian S. Pappas

4 The e-business journey

How can established companies organize themselves to optimize their position in the new economy? By understanding that integrating the Internet into their businesses occurs in capability-driven stages and that different organizational needs are required at each stage.

8 The Internet inte- gration lifecycle

Online initiatives at established companies evolve in five stages. Each stage is unique, with its own capabilities to be built, critical questions to be resolved and milestones to be achieved.

12 An organizational formula

At each stage in the evolution of an e-business, organizational elements must be aligned with a new set of capabilities and management's changing priorities.

22 No pain, no gain

To remain competitive, management must keep its online initiatives moving quickly through the lifecycle. Although this requires maximum organizational disruption, only those companies comfortable with the discomfort will succeed.



The e-business journey

How can established companies organize themselves to optimize their position in the new economy? By understanding that integrating the Internet into their businesses occurs in capability-driven stages and that different organizational needs are required at each stage.

The demise of the dot-com is no longer front-page news. But lingering (and often painful) memories have tended to obscure the fact that this sector's implosion is by no means the only story in the world of e-business.

In this world, waves of technology-driven change that began with the Internet will continue to reshape the economy and the way it works as we move to m-commerce, u-commerce and beyond. For established companies grappling with that first technology wave—those attempting to embed the “e” into their traditional businesses through the launch of online initiatives—life goes on. These companies—“dot-corps” in Accenture parlance—continue to carry out and benefit from major investment programs to e-enable their capabilities. Many are well on the way to implementing new business models and using the Internet to modernize their business processes, particularly in the area of customer relationship management.



Moreover, a growing number of established companies are demonstrating that many Internet initiatives are more than just strategic necessities—they already are improving the bottom line. In 2000, for example, Wells Fargo originated \$600 million in home-equity loans online. And both Delta and Northwest saw more than 5 percent of ticket sales come in through their websites, which translated into a savings, per transaction, of as much as 80 percent on their processing and commissions costs.

These are not isolated cases. Yet despite such success stories, most established companies pursuing e-business are still perplexed by how to organize themselves to optimize their position in today's economy. Their broad questions about the course of their e-business journey take many forms:

What capabilities must we e-enable? What new business models must we create? How do we maintain momentum? What can we learn from the rise and fall of the dot-coms? Do we have the right leaders? How do we roll our e-business back into our core business? What are other companies doing, and which ones are getting it right?

The right balance

The answers to many of these questions can be found in the realm of organization. Indeed, the direct link between the "right" organization and e-business success is becoming very clear; organization has proven to be as essential to success as other pieces of the e-business puzzle, such as strategy, business models and technology. When approached incorrectly, organization can be the biggest inhibitor of success. Therefore, once companies have solved the e-organization riddle, they can begin to answer broader questions about their e-businesses.

How do they solve the riddle? By understanding two things: Their e-businesses will evolve in stages that are defined chiefly by the capabilities required, and different organizational needs are required at each stage.

What we have found from our extensive client work in this area, coupled with our research (see box, next page), is that the dot-corp travels through a predictable, evolutionary and capability-driven lifecycle, during which the Internet becomes a fully integrated feature of the company's business. We have also found that to remain competitive, companies must have a clear understanding of this lifecycle, where they are positioned at any given moment and what capabilities they need. This, in turn, will allow them to assemble the organizational levers required to master these capabilities at each stage.

The predictability of the lifecycle and of the associated organizational dimensions serve to help management prevail at each stage.

But this is only half the picture. The ultimate success of a dot-corp will be determined over the course of the entire lifecycle, not simply by mastery of a single stage. Established companies first must recognize that the lifecycle stages are transitory and then manage the discomfort incurred during the transition between stages.

Change is difficult at any time, but it is particularly challenging when it is continuous and occurs at the speed so characteristic of the new economy. The key to success is for management to develop the ability to keep the dot-corp moving steadily along from stage to stage. This requires balancing the comfortable predictability of the dot-corp lifecycle with the need to disrupt the equilibrium

in the organization during each transition.

For the company looking to optimize its position and maximize its performance, moving leisurely or cautiously through the lifecycle, or lingering at any stage along the way, are not options. To break away from the pack, it must accelerate through the lifecycle. A few key capabilities in each stage, developed ahead of demand or seeded in the previous stage, will speed the transition of the dot-corp from stage to stage and shorten the journey to maximum value.

This is extremely challenging because it increases disruption in the short term. It requires management to divert resources to build those critical capabilities, something that is difficult in the resource-con-

strained environment in which the dot-corp typically operates. In effect, the real winners will be the companies that most effectively manage the highest level of discomfort throughout the Internet integration lifecycle.

About the research

Accenture's e-organization initiative, commissioned by the Accenture Human Performance service line, had two very specific goals. The first was to provide our clients with practical guidance, based on global best practices, on how to organize successfully for e-business—in other words, to demystify e-organization. The second goal was to provide insights to clients on the capabilities they will need and the organizational changes they must make as their e-businesses evolve and mature.

Our four-month review—from August through November of 2000—was a continuation of previous work conducted on e-governance and strategy (see *Outlook Special Edition: "Governance at eSpeed"*). An experienced team of senior Accenture professionals, representing a range of knowledge, took a detailed look at 33 North American and Western European companies with successful e-businesses.

Included in the group were both dot-coms—Internet pure-play startups—and dot-corps—established companies entering e-business through the launch of Internet ventures. They represent, among others, the financial, consumer/retail and resources industries. The research included:

1. In-depth interviews to create case studies.
2. Quantitative analyses to assess the importance of key capabilities.
3. Testing and validation of emerging insights by a broad group of Accenture professionals.



The Internet integration lifecycle

Online initiatives at established companies evolve in five stages. Each stage is unique, with its own capabilities to be built, critical questions to be resolved and milestones to be achieved.

We have identified five stages in the evolution, or lifecycle, of an established company's effort to integrate e-business into what it does and how it does it. These stages are highly relevant for the dot-corp as it struggles to secure its place in the new economy.

The lifecycle functions as both a road map, identifying exactly where a dot-corp is positioned in its e-business development, and as a powerful prescriptive tool for fully integrating the Internet into the company's business. And because the journey through the lifecycle is also a voyage of discovery—an exploration of new technology and the integration of that technology into a company's view of the market and the way it does business—the lifecycle will continue to be relevant as the company encounters successive waves of even more revolutionary technologies.

Each stage of the lifecycle is unique, with its own capabilities to be built, critical questions to be resolved and milestones to be achieved. While some issues are of continuing importance throughout the lifecycle, the focus at each stage varies significantly. Each succeeding stage is not only predictable, it's obligatory: No one has the luxury of skipping stages, although some latecomers may have the opportunity to learn from others in the market.

Experimentation

The experimentation stage is the starting point for all dot-corps. This stage is driven by a company's early adopters, often in reaction to the need to "do something" about e-business. The most prominent characteristic of this stage is the emergence of scattered, uncoordinated initiatives throughout the organization, each focused on performance enhancement through Internet capabilities.

During this stage, for example, different product divisions of the same company might—unilaterally but simultaneously—make their products available on the Internet. The experience of one large multidivisional manufacturing company is instructive. During experimentation, this company's divisions independently began to build a large number of different websites for different product lines. The result was increased sales and awareness—but at the cost of product, brand and customer confusion, as well as redundancy in capabilities.

But the experimentation stage is also a time for learning. Dot-corps may tinker with the existing business model, or they may develop new business models, such as spinouts.

There is still little evidence of market traction at this stage, and senior management is not yet fully engaged in the effort.

Most North American and Western European companies that have moved into e-business in the past two years already have passed through the experimentation stage. As a result, some companies, particularly in Asia, are now positioned to skip this stage because they can look to best practices in the West.

Formalization

During the formalization stage, preliminary e-business strategies begin to emerge in the form of initiatives integrated across business units. At this point, each unit's senior management typically designates a head of e-commerce and begins to assume control of e-business initiatives and investments. Some results are evident in the marketplace at the divisional level.

Formalization is a period in which e-business initiatives are inventoried and evaluated. Some experimental ones are shut down; others are continued. It is a time when problems that surfaced during experimentation are resolved. For example, one distributor of office equipment created channel confusion during the experimentation stage by offering products online that couldn't be purchased in its retail stores. This was remedied during formalization through a coordinated process of comparing customer experiences channel by channel, which established consistency in inventory, pricing and availability.

Rationalization

During the rationalization stage, the company's senior management takes corporate- or group-level ownership of the e-business initiatives. Various

e-business strategies are rationalized into one coherent strategy, and CEOs mobilize their companies around this coordinated portfolio of initiatives, which is managed at the overall corporate level.

Take, for example, the experience of one large regional financial services company. During the rationalization stage, this company applied the lessons learned by its retail business unit during formalization across the rest of its business units. This interaction across the corporation advanced the entire organization's e-business strategy. Even retail—the division leading the e-business journey—was able to learn from those divisions that followed in its footsteps, creating a mutually beneficial learning cycle.

Realization

The realization stage marks the period of greatest traction and growth of online initiatives. Since this is where the corporate-level e-business strategy is implemented at scale, there are opportunities for major wins, as well as major failures. The insights gained at this stage are critical for resolution, the next and final stage of the e-business lifecycle.

There is more external scrutiny during realization, and thus much greater monitoring and measurement of e-business results. Consequently, a weeding out of specific Internet initiatives takes place as companies better understand the constraints they face in executing their e-business strategies. Operational excellence becomes a top priority, and metrics are put in place to guide the refinement of these strategies.

But progress for the e-business brings a new set of problems. As particular initiatives prove to be

promising, everyone wants a piece of the action. Management may compete for ownership of new revenue and customers. For example, as online banking began to grow at one large financial institution, so did the tension over how to account for revenue and customer acquisition.

Resolution

Finally, at the resolution stage, the dot-corp decides how to integrate e-business strategies and processes into its core business. Separate e-business initiatives are integrated where needed, and elements of the business model change to adapt to those initiatives. It is here that

e-business ceases to be a separate, somewhat exotic, management issue. It is now an integral part of running the business.

Most dot-corps today are moving from formalization to rationalization; relatively few are still in the experimentation stage. Faster-moving companies have progressed beyond rationalization and into realization, but few—arguably none—have progressed fully to resolution.

But no matter where they are, the focus is on getting to the resolution stage. Companies are talking about how to integrate e-business and traditional business—and how to build the Internet into the company's offering in a more seamless fashion.

Dot-coms: Different paths, different drivers, different stages

The established company can go into e-business by creating an Internet venture and integrating it into its traditional business, effectively becoming a dot-corp (see story). Or it may choose to enter e-business in a somewhat more entrepreneurial fashion by acquiring or launching a pure-play Internet startup, or dot-com.

Like the dot-corp, the dot-com evolves through stages of a lifecycle. The key is to understand where the acquired or newly launched dot-com is positioned with respect to its own lifecycle. Though the lifecycle specifics of the dot-com differ from those of the dot-corp, the same principle of capability-specific stages applies.

There are three stages in a dot-com's lifecycle: startup, scale-up and maturity. As the dot-com evolves, the capabilities it needs to master, and the organizational levers it needs to pull, change. These capabilities are different than those required of dot-corps.

- Both realize that speed to market, effective decision making and talent management are critical capabilities. But dot-coms are interested more immediately in effective links to business partners.
- Dot-corps seem to understand better the importance of customer intimacy but must, necessarily, worry more than dot-coms about their ability to manage change.
- Both realize that building infrastructure and achieving operational excellence are critical. But dot-coms are more immediately interested in forming alliances, something dot-corps learn only as they evolve.
- Dot-coms recognize that they must create customer awareness, whereas dot-corps often need to learn that they don't just come because you built it.

The dot-corp that understands the common framework, and how to integrate the dot-com's different stage and capability needs into its own lifecycle, will be most successful. The merger of the two is not about right and wrong, not about weak and strong. Rather, it is about different paths, different drivers and different stages.



An organizational formula

At each stage in the evolution of an e-business, organizational elements must be aligned with a new set of capabilities and management's changing priorities.

No established company appears to have completed all five stages of the dot-corp lifecycle. Therefore, our focus here is on the three stages where most companies are situated today—formalization, rationalization and realization.

We found that where a company is positioned with respect to these three most prevalent stages is the single most important predictor of organizational models and changes. This is because each stage is defined by the particular capabilities it requires.

When the company moves from one stage to the next, a new set of organizational imperatives and capabilities comes into play. To succeed, companies must seriously examine and understand—not merely pay lip service to—their stage-specific capability needs. They must then adopt an integrated approach to organization that is aligned

with those capability needs and that shifts as those needs shift.

What are the required capabilities at each stage of the lifecycle? What shapes the investment choices and the other decisions senior management must make as the dot-corp's e-business evolves?

Continuing challenge

During formalization, building infrastructure is the most critical of the required capabilities. Indeed, infrastructure is the most important capability throughout the Internet integration lifecycle. This includes efforts to upgrade legacy systems and processes to support the e-business requirements in product development, distribution, customer relationship



companies also focus on operational excellence and discipline, and manage stakeholders deftly within and across business units and alliances. Customer intimacy emerges as a continuous and long-term requirement, as does the ability to manage the transformation taking place in the organization.

Companies moving toward the realization stage, while still focused on infrastructure, are now devoting the majority of their efforts to managing their alliances effectively and gaining a deeper understanding of their customers. They are building marketplace awareness of new products and services. Now they must develop capabilities that enable them to respond more quickly to their cus-

For the evolving dot-corp, executive intervention is critical to the mastery of requisite stage-specific capabilities.



management and other areas. Dot-corps also must now develop a funding capability, create an e-business strategy and attract talented leaders to implement that strategy.

During formalization, dot-corps run the risk of getting bogged down in the many decisions that must be made and in the existing processes and culture that must be challenged. So they need to build capabilities here with appropriate speed and to make effective, timely decisions. Leisurely decision making under the old rules won't cut it.

Building an e-business infrastructure, creating strategy and obtaining funding remain important issues as companies move into the rationalization stage. But two new required capabilities surface during this stage. It is now critical that

customers and better understand their buying behaviors, since capturing new customers becomes critical to sustaining success.

If information technology infrastructure has not already been adapted to a company's e-business needs, it now must be. The strain of scaling up would otherwise overwhelm any short-term attempts to support these applications that are independent of normal IT processes.

The focus during realization also shifts from managing change, which was a big issue in the earlier stages of e-business evolution, to managing e-business talent across the organization. At a diversified company, for example, it is no longer enough to manage a small set of specialists in the company's dedicated e-business development group. Rather, as the

dot-corp heads down the path toward resolution, it must build skills and knowledge in a broader range of people.

For the evolving dot-corp, executive intervention is critical—to the awareness and understanding of where a company is positioned at any point during the Internet integration lifecycle; to the mastery of requisite stage-specific capabilities; and to the anticipation of the capabilities that will need to be developed in subsequent stages.

Form follows function

We have identified six organizational elements that must be coordinated to meet the capability requirements and management priorities at each stage of the dot-corp lifecycle. Of course, structure is one of those elements, but surprisingly, it's not the most important one.

Here form follows function. First, the capabilities needed at each stage must be identified, and then all of the organizational elements, including structure, must be aligned to enable the company to create those capabilities.

What are the organizational imperatives at each stage? How do these imperatives shift as the established company progressively integrates the Internet into its existing business?

1. Leadership

This is one area in which the skills and qualities needed to guide the dot-corp through its lifecycle are relatively consistent (see box, page 18). In addition to possessing a thorough understanding of the lifecycle and a readiness to periodically disrupt the organization, dot-corp leaders also must create and sustain a shared vision and continually anticipate new opportunities. The ability to embrace change through-

out the stages is also an ongoing leadership requirement.

As the company moves from formalization to rationalization, leaders must learn to develop and empower others and to ensure customer satisfaction with the growing e-business. Then, as they move toward realization, they must add the technical savvy needed to become advocates for the value of new technology.

The CEO of a large global energy company has demonstrated effective leadership by deftly moving his organization through the dot-corp lifecycle. Throughout the process he has maintained a steady but evolving vision of the Internet's impact on the company and on the market in which it operates.

This leader has encouraged his organization to embrace the "e." He has intervened, when necessary, to alter the mission of the entities charged with driving e-business initiatives throughout the organization. For counsel in areas in which he does not have deep expertise, he has established a technology advisory board to keep company executives abreast of the latest trends and developments.

Anticipating new opportunities is also key for one global industrial manufacturer whose senior e-business leadership tries to develop at least three new business ventures, many of them Internet-enabled, each year.

2. Governance and decision making

Dot-corp governance structures need to be built well, though not to last, because governance and decision-making needs change throughout the lifecycle.

During formalization, effective decision making surfaces as an issue. Many companies set up decision-

making processes for funding e-business initiatives that are parallel to their annual budgeting processes. Separate e-business governance structures and committees are formed, distinct from the company's normal ones.

In the rationalization stage, companies need to build a group-level e-business management capability. This team can take advantage of e-business managers who are already in place at the business unit level and are working well with offline businesses.

Companies need to build broad, but transitional, decision-making and governance structures. We have found that at this stage, many dot-corps have created advisory boards made up of executives with high-tech, e-business and/or venture capital experience who can provide an outward-looking perspective on online initiatives.

During the realization stage, decision-making efficiency is paramount, as the company learns from broad market experience about what is working and what is not. Problems must be identified and resolved promptly, and the course must be corrected when necessary. Close collaboration between the traditional lines of business and the e-business is essential to minimize customer confusion.

Pulling together

In a situation faced by many large organizations, one global pharmaceutical company needed a new governance committee structure to rationalize its e-business initiatives at the top of the organization. This company was structured around different products, functions and geographies. Without this new governance mechanism, it could not go beyond the existing organizational boundaries to deal with the global, cross-unit issues posed by its e-business.

Organizing by stage of development

Six organizational elements must be coordinated at each stage of a dot-corp's development.

	Formalization	Rationalization	Realization
Leadership	<ul style="list-style-type: none"> • Create a shared vision • Embrace change • Build teamwork and partnership 	<ul style="list-style-type: none"> • Create a shared vision • Embrace change • Build teamwork and partnership • Develop and empower people • Ensure customer satisfaction 	<ul style="list-style-type: none"> • Create a shared vision • Anticipate opportunity • Show technical savvy
Governance and decision making	<ul style="list-style-type: none"> • Separate e-business governance structures • Parallel decision-making processes • Strategic business unit-focused 	<ul style="list-style-type: none"> • Corporate-level governance • Respected e-business management • Working decision/escalation processes • E-business, high-tech or venture capital experience 	<ul style="list-style-type: none"> • Corporate-level e-business governance structures • Focus on customer and revenue ownership issues • Envision governance structure that eliminates "e"
Employee skills	<ul style="list-style-type: none"> • Product/service development • Marketing • Customer service • Industry knowledge/expertise • Technical 	<ul style="list-style-type: none"> • Product/service development • Marketing • Customer service • Industry knowledge/expertise • Alliance management 	<ul style="list-style-type: none"> • Customer service • Alliance management • Internet business knowledge/expertise
Company culture	<ul style="list-style-type: none"> • Typically internally focused • Silo-based teamwork, resource allocation and communication • Fewer, bigger bets 	<ul style="list-style-type: none"> • Increasingly externally focused • Building pan-corporate collaboration and communication • Market shift from react to anticipate 	<ul style="list-style-type: none"> • Externally, customer-focused • Cross-company teamwork and communication • Culture of collaboration • Create the market
Performance metrics	<ul style="list-style-type: none"> • Few measures • Inconsistently applied 	<ul style="list-style-type: none"> • Cross-SBU goals and measures • Operational and growth measures 	<ul style="list-style-type: none"> • Balanced scorecards for e-business, including customer, financial, operations and innovation measures • Integration of traditional and e-business metrics
Organizational structures	<ul style="list-style-type: none"> • Separate e-business structures (in SBUs) • Dedicated e-business resources emerge 	<ul style="list-style-type: none"> • Combinations of structures • Stronger corporate-level presence • Dedicated e-business resources • Cross-SBU collaboration 	<ul style="list-style-type: none"> • Lessening of organizational complexity • High degree of flexibility to change • Competition for ownership • Envisioning e-business integration

In another case, a bank that has been successful in the world of e-business was able to leverage an effective, though transitional, governance structure to enable the rapid development of its consumer banking capabilities via the Internet, while retaining strong ties to the lines of business and processes in the traditional bank.

By contrast, one of this bank's chief competitors, despite a far more dramatic foray into e-commerce, governed less effectively and failed to align its new e-initiatives with its traditional lines of business. Its structure did not enable cross-business decision making or shared accountability. The result was internal conflict and competition.

sions. At this point, they should anticipate longer-lasting governance structures.

3. Employee skills

In the early stages of the lifecycle, technical and industry skills are critical. Companies must learn quickly, however, that marketing and product development expertise is more important for e-business success than technical skills.

Technology becomes less of a mystery as companies become more proficient in these areas, and as new companies that provide the technical services needed by dot-corps emerge. The fascination with technology early on must give way to the recognition that in e-business, as in tradi-

As the e-business evolves, the most prized employees will be those with in-depth, sophisticated knowledge of emerging business models.

Ultimately, after suffering significant losses, this bank's e-business organization was restructured.

What made the difference here?

The successful bank pulled together new and different governance mechanisms to address its evolving e-business, while the other bank relied exclusively, and prematurely, on traditional structures.

As they approach the resolution stage, companies must figure out how to incorporate e-business decision making into their traditional processes. They need to stop making distinctions between the "e" and "non-e" components of their total business. They must implement processes and structures that work for the organization as a whole and that enable the exchange of information between different business divi-

tional business, effective marketing and promotion, brand building and meeting customer needs are what ultimately lead to success.

In addition to marketing and product development, alliance management and excellent customer service are also continuous and long-term skill requirements. And as the e-business evolves, the most prized employees will also be those with in-depth, sophisticated knowledge of the emerging business models reshaping their industries.

4. Company culture

The dot-corp culture changes dramatically as the company progresses through the lifecycle.

During formalization, dot-corps tend to get sidetracked by vague concerns about work style ("Are blue

jeans considered business casual?” “Should we have an espresso machine by the watercooler?”). Concerns like these can distract management from more critical and difficult tasks: shifting the dot-corp’s culture from an internal focus to a market focus, and from siloed to cross-organization teamwork and communication. Many of these issues will become particularly urgent during the rationalization stage. At this point in their

development, dot-corps typically are reacting to the market, rather than leading it.

As they move into the rationalization stage, dot-corps should focus on building a culture of collaboration—shared learning and shared solutions—and seek out inspirational leadership. They must also increasingly be willing and able to manage the risks that are inherent in an environment of uncertainty.

Profile of an e-business leader

Accenture’s work in strategic leadership development, based in part on Paul Taffinder’s book, *Big Change*, has produced a model of what successful change leaders need to do and what traits they need to possess. For executives of dot-corps—established companies launching e-business ventures—this model can be aligned with the organizational imperatives of the multi-stage e-business integration lifecycle.

A dot-corp needs a leader who *imposes context* throughout the lifecycle. This person lifts people’s sights and defines where the business is heading, from the time an e-business idea is seeded until it is integrated into the established company’s operations.

Although three of the traits—*makes and takes risks*, *has conviction* and *is unpredictable*—are important throughout the lifecycle of an e-business initiative, they are particularly critical in the early stages of experimentation and formalization. The ability to *create critical mass*—to generate energy and urgency, and to sustain impatience to achieve more—is most important at the end of the cycle. This is when leaders must connect with management to adopt large-scale changes across the organization.

For emerging dot-corps, the context must be reinvigorated, the tactical picture changed and the milestones reset at each stage. The leader must understand and communicate the current context, as well as the steps for the future.

Because of this, the leadership profile is particularly important during the transitional stages. The innovative, creative early-stage leader generally will be different from the maintenance leader. Dot-corps, therefore, should expect a change in leadership at least once, if not twice, in their lifecycles.

The early-stage “cheerleader”—experimental, evangelical and inspirational—is probably not the same person as the leader who, once the e-business and traditional business are integrated, can ensure that the processes for sustaining success are in place. Rather, the maintenance leader must know the business deeply, work hard, talk less and impose rigorous management.

Processes for measuring and managing risk have to be adjusted.

By the time they reach the realization stage, dot-corps should be fully in touch with customer needs and values. They should now have a firmly established collaborative culture that enables them to drive changes in the market. In other words, their culture should support organizational procedures, teamwork and communications mechanisms that work across functions. And in most cases, they should have inspirational leaders in place.

Gaining traction, spinning wheels

The impact of culture on e-business evolution is illustrated by Companies A and B—both large, multidivision

cross-business unit and growth initiatives, and encouraged experience sharing across the company.

Although Company B had similar goals, it was less successful at executing them. Its highly decentralized business unit culture impeded its ability to take full advantage of its new corporate e-center and incubator capabilities.

The result: Company A achieved greater traction in the rationalization stage, while Company B is still spinning its wheels. Despite largely similar organizational structures, the differences in collaborative culture had a major impact on the pace at which the two companies' e-businesses evolved.

By the time they reach the realization stage, dot-corps should be fully in touch with customer needs and values.

organizations with autonomous business units.

Both companies created a dedicated corporate-level e-business group, which housed the scarce resources that needed to be leveraged across their businesses. Both created venture/incubator capabilities by identifying people with the skills to define and launch new e-business ventures. But while the two companies chose similar organizational structures for their e-business efforts, they did so on the basis of decidedly different cultures, which in the end made all the difference.

Company A used a culture of collaboration and communication to achieve success in the rationalization stage. It built a comprehensive portfolio of e-business initiatives, developed mechanisms for funding

5. Performance metrics

Dot-corps should not underestimate the importance of measuring their progress in nonfinancial ways at all stages of the lifecycle. The key change we see as companies mature is a shift in mind-set. As they progress through the stages, they realize that they do, in fact, need to develop strong metrics that guide the evolution of their strategies.

In the formalization stage, companies debate the nature and extent of e-business performance measures. The few measures that do exist—such as the number of hits on the website or the number of transactions completed through the Web—tend to be inconsistently applied.

During rationalization, companies discover that defining business goals and measures is still a

Alliance management in e-business: A matter of timing

As dot-corp executives seek to create effective e-businesses, as well as make the right organizational structure decisions for those businesses (see story), they often consider the role of alliances in building the new organization.

Timing and pre-planning are the keys to alliance success for dot-corps, the online initiatives of established companies. The right timing ensures that the scale of effort is appropriate to the particular stage in a dot-corp's evolution. Pre-planning sows the seeds of success early so that key capabilities are in place when needed.

Alliance management in e-business is best understood in the context of three critical stages of dot-corp growth: formalization, rationalization and realization.

In the formalization stage, companies need to create a foundation for growth. Management priorities center on strategy, leadership, infrastructure and funding. Even a well-managed effort can focus on, at most, a very small number of vital alliances.

The key alliance management need during formalization is a clear understanding of the strategic value of alliances, which helps detail the criteria for alliance selection and formation in later stages of the dot-corp's lifecycle. During formalization, senior executives build relationships with alliance partners and champion their alliances in their own companies. There is not yet a need for formal alliance procedures or infrastructure investment.

As the company moves to the rationalization stage, the number and complexity of alliances increases, typically well beyond the capacity of senior management. Executives must begin to flesh out the alliance management function while investing selectively to ensure that alliances are managed uniformly and well.

Alliance success at this stage still depends on the involvement of top personnel who understand the business and critical technologies, are adept project managers and have top-notch relationship-building skills.

As the number of alliances proliferates during rationalization, effective information management is essential. All the people involved in the alliances must have access to current and historical information, and decisions and actions must be rapidly communicated.

Finally, when the evolving e-business moves into the realization stage, it should have an institutionalized alliance management capability, scaled to meet the demands of the rapidly growing business. The informal rules and processes of the rationalization stage should be knit together in a more formal fashion to guarantee a uniform level of performance and to provide a platform for incorporating and spreading best practices.

This will also tie the alliance management activities into the company's other critical business processes, allowing them to work in concert. Often the best way to formalize these processes is to create a knowledge management system that provides tools, guidance and access to information.

As the number of alliances now far exceeds the management capacity of the early team, the company needs mechanisms that create and motivate skilled alliance managers. This involves selection, formal training (and often certification) and a recognized career path with supporting incentives to reward those who choose to specialize in alliance management.

Success with alliances is not just about choosing the right ones, it's about doing them right. Building alliance management capabilities that are appropriate to the evolutionary stage of the dot-corp can significantly increase the alliances' chances for success and set the stage for long-term, profitable growth.

problem. At this point, they should establish performance measurements that identify opportunities to share knowledge and experience across business units.

By the realization stage, companies should have adopted an integrated set of traditional and e-business metrics that guide the evolution of strategy. Balanced scorecards for e-business should also emerge at this stage.

A key success factor for integrating the Internet into the business is the development and incorporation of e-business measures into traditional measurement systems. Of course, companies that have strong traditions of performance-based measurement systems will be faster and more

be successful. So revising the organizational chart to reflect e-business will not, in and of itself, yield results.

The four most commonly pursued models of e-organization are a separate line of business, a spinoff, a portfolio/incubator model or an integrated model. Dot-corps have succeeded under all of these models—none is inherently better than the others. Some dot-corps choose a combination of them. Results vary widely.

The bottom line is that a dot-corp can choose any model and make it work. It's how the structure interplays with the other organizational elements that determines its effectiveness. (For a more detailed treatment of e-organization models, see

clauses" into its new e-business organizational entities. These clauses preset the dates on which organizational structures will be reevaluated, based on the continued existence (or non-existence) of the specific needs those structures were created to satisfy.

From a stage-by-stage perspective, separate e-business structures emerge, primarily at the business unit level, during formalization. Resources are dedicated to the e-business, and companies begin thinking about different ways to communicate and collaborate.

As the company moves to rationalization, its e-business is integrated, shared or structured as a separate line of business—or as some combi-

How well an established company operates its e-business is more about focus and capabilities than about getting the structure right.

effective in defining and measuring progress in Internet commerce.

For example, one large global resources company took advantage of its existing performance-based culture to propel its e-business. This culture made it easy to augment existing metrics with e-business measures and to adjust performance-based contracts for e-business. And a large manufacturer outpaced the competition in e-business initiatives and ventures early on by incorporating e-business metrics into its annual management plans.

6. Organizational structures

How well an established company operates its e-business is more about focus and capabilities than about getting the structure right. There is no cookie-cutter structure formula—a variety of structures have proven to

Outlook Special Edition: "Governance at eSpeed.")

Organizational structures for e-business are by nature short-lived. One industry leader we observed actually reorganized its e-business three times in 18 months.

While this may not always be advisable, in this case it worked. This company was making great strides toward developing stage-required capabilities; the structural changes were necessary to lead the transition to the next stage. What the company clearly understood was that structure-related needs must be viewed as temporary and that e-business organizational structures can become dead weight if they don't keep pace.

A leading pharmaceutical company also understood this and built "sunset

nation of these options. A strong corporate-level organizational presence emerges, and there is greater collaboration and coordination across business units.

During realization, the additional level of matrixing introduced by transitional structures gives way to less complex organization. Competition may emerge for ownership of e-business organizations and initiatives as companies begin to envision the integration of e-business into the existing organization.



No pain, no gain

To remain competitive, management must keep its online initiatives moving quickly through the lifecycle. Although this requires maximum organizational disruption, only those companies comfortable with the discomfort will succeed.

The prescribed formula for arranging the organizational elements stage by stage puts management in the comfort zone. There it can anticipate, and hence handle, future priorities and organizational challenges.

However, the comfort is fleeting. To remain competitive in a fast-moving economy, companies must also figure out how to keep the momentum of their online evolution going and move forward to the next stage.

Remember: Just when a dot-corp masters one stage, it will need to change again. Management must continuously disrupt the organization to refocus it on the next stage's priorities and capabilities. This part is uncomfortable and unsettling, and often countercultural.

Why is the transition process so inherently difficult? Because in addition to staying focused on the important capabilities and skills that are unique to each stage, or that span the stages, executives must identify next-stage requirements and prepare the organization to meet them. This frequently disrupts day-to-day activities and collides with company policies, culture and norms. It may mean radical shifts in information flows, changed or unmet expectations, or out-of-cycle decision making.

For example, the CEO of one company we worked with sent shock waves through his organization when, contrary to the company's funding-approval procedures, he gave blanket approval to multiple investments in all new e-business initiatives. This CEO's active intervention sent the message that e-business was not business as usual.

Maximum disruption

While managing the transition from stage to stage is uncomfortable, accelerating the development of next-stage capabilities is even more so because it requires maximum organizational disruption. The deliberate shift in focus, from what feels achievable at a given stage to what is still a reach, will be a source of extreme discomfort.

Leaders who do this well have a highly developed ability to understand exactly where they are and to look ahead to where they want to be. They recognize the need to develop capabilities ahead of demand, though they are often hard-pressed to find people with the skills to create these capabilities. Though limited by constraints in human and financial capital, and by the need to divert scarce capital from present needs, leading dot-corps know that this is the route to success—maximum retention of

hard-won customers and heightened product and service development.

What has enabled the leading dot-corps to move quickly to realization? Most important, management has actively intervened, not only to ensure that present-stage capabilities and needs are met, but also to develop emerging-stage capabilities as well.

We also found that faster-moving companies have certain inherent characteristics in common that enable them to move quickly. For example, they generally have fewer problems with legacy systems, and their processes are better able to support an e-business. They are also adept at managing change and are able to envision the integration of e-business and traditional business.

Fast-moving companies have implemented effective e-business decision-making processes and are anticipating the next level of e-business opportunities based on new business and industry models. They have integrated their industry knowledge with new Internet business model knowledge. Most critically, they benefit from cultures that stress collaboration and open and frequent communication.

Many executives instinctively turn to the organization chart when trying to solve their e-business mobilization problems. Organization is indeed critical to success in e-commerce. But we have found that organization in an e-business context must evolve and adapt in response to the different capability requirements at each stage in a dot-corp's lifecycle. Effective e-organization is, in fact, made up of many elements that must work in concert if established companies are to succeed in today's economy.

We have also seen that getting the e-organization elements right at each stage—not embracing the latest technology or new business model fad—is the top priority for dot-corp initiatives. Well-managed navigation through the Internet integration lifecycle will build sustainable and competitive e-business capabilities that are grounded in the elements of organization.

Increasing market pressure will reward dot-corps that move quickly and surely through this lifecycle, from experimentation to realization. Although less aggressive dot-corps can stay in the game if they organize around the capabilities unique to each stage of development, optimizing their results will require accelerating the development of next-stage capabilities.

Management will have to be engaged in a constant struggle between the relative comfort that the predictability of the lifecycle and its organizational imperatives bring, and the discomfort of the disruption caused by moving from one stage to the next.

The real winners will be those companies that are comfortable with discomfort. ■

For information about our contributors, please turn to page 26.

Contributors

Eileen H. Bedell is a partner in the Accenture Human Performance service line, where she specializes in business and organization strategy development and implementation for wholesale institutional banking and capital markets businesses in North America. Ms. Bedell, who has 27 years of consulting and line management experience, is recognized within Accenture as the leading specialist on e-organization evolution. She also has extensive experience in executive leadership, new business ventures and board of director strategy. She is based in New York.

eileen.h.bedell@accenture.com

Charles F. Kalmbach Jr. is the global managing partner of financial services within the Accenture Human Performance service line. Dr. Kalmbach has more than 25 years' experience in defining and executing sustainable strategies and transformational change within large and complex organizations. He consults for a variety of industries and has developed particular knowledge of global organization and corporate strategy, the assimilation of large-scale change, and alliance formation and post-merger integration implementation. Among his many publications, Dr. Kalmbach coauthored *Outlook Special Edition: "Dispelling the myths of alliances,"* which looked at the realities of alliances and post-merger integration. He is based in Chicago.

charles.f.kalmbach@accenture.com

Joanna Horsfall, the chief innovation officer of the Accenture Strategy & Business Architecture service line, is responsible for driving thought leadership in this area. Ms. Horsfall, who has worked in both the public and private sectors, has 15 years of strategy consulting experience; she specializes in the governance of rapid—often technology-driven—change, primarily in the financial services and telecommunications sectors. Her current client work focuses on corporate governance and organization strategy. Along with Brian Pappas, Ms. Horsfall co-led the development of Accenture's point of view on e-governance and e-organization. Recently she coauthored *Outlook Special Edition: "Governance at eSpeed,"* which looked at decision making in the new economy. She is based in San Francisco.

joanna.horsfall@accenture.com

Brian S. Pappas is a Boston-based associate partner in the Accenture Strategy & Business Architecture service line. With more than 20 years' experience in business and information technology strategy formulation and research, Mr. Pappas currently heads the service line's thought leadership in the area of new business models for the digital economy. Much of his recent research and client work has been in the areas of organization and governance for e-business for large companies. Mr. Pappas, one of Accenture's leading specialists on e-governance, recently coauthored *Outlook Special Edition: "Governance at eSpeed,"* which looked at decision making in the new economy.

brian.s.pappas@accenture.com

The material on alliance management in e-business (page 20) was contributed by **Dominic M. Palmer**, an associate partner in the Accenture Strategy & Business Architecture service line.

dominic.m.palmer@accenture.com

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