Introduction: New Rules of Business

The First Industrial Revolution used water and steam power to mechanize production. The Second used electric power to create mass production. The Third used electronics and information technology to automate production. Now a Fourth Industrial Revolution is building on the Third, the digital revolution that has been occurring since the middle of the last century. It is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres. These include artificial intelligence, robotics, the Internet of Things, autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage, and quantum computing. This technological revolution will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before.

Klaus Schwab, World Economic Forum

I have found the above excerpt to be prophetic and, therefore, wanted to use it to set the stage for section 1 of this book and establish a connection with what's playing out in front of and all around us. It is important to understand that the velocity and magnitude of change

we see in this digital age are unprecedented. I like to use the term VUCA to describe this changing world around us. VUCA captures the essence of the digital age, and I have often used these two terms interchangeably throughout the book.

To win any game, it is important first to understand and master the rules of the game. It is the same in business. My proposition is that the VUCA world or the digital age is very different from the world we have seen so far, and thus we need new rules of business to succeed. Therefore, I call the first six chapters of the book the new rules of business. Here, the focus is to understand what is different in this VUCA world/digital age, why enterprises are facing challenges to adapt, and what new principles and approaches they should consider.

Some of the factors that have led to this unprecedented velocity of change in the VUCA world include: changing expectations of **customers** who are younger, digitally savvy and demand high-quality experiences and solutions; **technology** disruption where every company needs to develop a technology DNA; a dramatic increase in **velocity** of change where industry structures are shifting and new competitors and new industries are rapidly emerging; an explosion of **data** from multiple touchpoints as the volume, velocity and variety of data is growing at an unprecedented rate; digital is a constantly moving target requiring an **iterative** approach; in today's digital businesses, the problem is not simply about marketing, finance, operations or technology—digital problems are **interdisciplinary** and require greater organizational collaboration to solve customer problems. With all of these change factors, it is important to realize that incremental thinking no longer works; if you don't think differently, someone else will cannibalize you.

Fortunately, most enterprises have embarked on some variation of digital transformation programmes. However, the impact of these programs often falls short of expectations. There are many reasons for this, which we will explore further in section 1, but the core

issue is that enterprises have not recognized how much business fundamentals have changed in the digital age. They continue to take their existing business models, infrastructure and approaches and apply them to digital age problems and opportunities. It is clear if you apply old world formulas to new world situations, your outcomes will be sub-optimal.

In section 1, I present the logical thread of how these basic business fundamentals are changing, what are the challenges being faced and what should be the new principles and approaches at two different levels. First, the general nature of the VUCA world and overall implications for business, which include my *New Rules of Business*. Second, getting down to what is digital transformation and my recommended approaches for success.
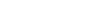
Across these changing basic business fundamentals, I see some common themes that are important to consider while driving action and transformation in the digital age:

1. **It has to be an end-to-end transformation:** While technology is the key driver of digital, it is only one of the pieces of the puzzle. Enterprises encounter success or failure often because the other factors are missed. Strategy, organizational structures, processes, talent, etc., have an equal and often more important role to play. End-to-end transformation can often be a cliché, but in this case, it is very appropriate.
2. **Strategy-to-execution boundaries are getting blurred:** The pace of change in every aspect of the digital age, whether customer expectations, competition or technology, is very high. Therefore, the traditional lines between 'the what and the how' are blurring at all levels, whether in terms of business strategy or technology execution. This change from sequential to iterative feedback loops is a fundamental one. Every aspect of execution, from organizational structures to processes, infrastructure and leadership mindsets, need to reflect that.

3. **Two-speed execution is essential:** Speed and experimentation are key characteristics of the digital age. It puts a huge focus on execution and short-term impact. At the same time, the need to place long-term bets does not go away. You have to think big and bold and not be stuck in the incremental. So, you need both short-term execution and long-term bets. I call this two-speed execution, and managing this duality across levels is essential for success in the digital age.

4. **Learning from digital natives:** Born in the digital age, companies such as Google, Amazon, Apple and others, have been remarkably successful. Their success is not just founded on technology but a new way of doing business. While every start-up is not a success and every legacy enterprise is not doomed to fail, I believe there is a lot legacy companies can learn from the digital natives.

I have tried to reflect on these common themes across the following chapters. So, let's quickly summarize what we will talk about in the rest of section 1.

Chapter 1: Everyone Is Going Digital (and Most Fail!)

In this chapter, I lay the foundation for what digital is and how pervasive it is. We also discuss the winners and losers of the digital age, the huge investments made by enterprises and yet the high failure rate of achieving their vision.
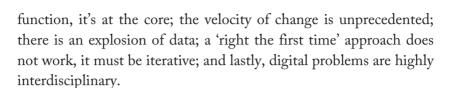
Chapter 2: It's a VUCA World: The New Fundamentals

As we move to the next stage, we dive deeper into the VUCA model and the implications of a VUCA world. I share my observations on the fact that a digital age business is fundamentally different from traditional business as usual in at least six ways: the customer is younger and more demanding; technology is not a support

function, it's at the core; the velocity of change is unprecedented; there is an explosion of data; a 'right the first time' approach does not work, it must be iterative; and lastly, digital problems are highly interdisciplinary.

Chapter 3: Introducing the Eight New Rules of Business

Here, I present the eight new rules of business, which I believe are essential for every enterprise and leader (or aspiring leader) to internalize and adopt. If you absorb only one chapter of the book—this is it.

Chapter 4: Introduction to Digital Transformation in Business

In this chapter, I provide a better understanding of the key aspects of digital transformation. It operates at two levels, changing how a business interacts with customers using technology and leveraging technology to automate or digitize operational processes to drive greater efficiencies and reduce turnaround time. I also introduce the core steps of a digital transformation journey and the technology building blocks involved.

Chapter 5: Five Rules for a Successful Digital Transformation

I propose that having recognized that drivers of digital are different, individuals and enterprises need a new mindset and approach to succeed. I recommend a five-point action plan: rethinking the business model and adapting to the needs of a digitally savvy customer, anchoring digital programs on business KPIs, harnessing the power of data, taking an integrated end-to-end approach and implementing a two-speed model (here I'll also explain my two-speed model).

Chapter 6: Building Scalable Models in the VUCA World: The CIO View

In my final chapter in section 1, I bring key insights from my extensive conversations with leading CIOs across industries and around the globe. Most industry leaders realize that the VUCA environment is here to stay and that it has far-reaching implications across three dimensions: people, processes and technology. Digital transformation is an unavoidable organizational imperative in such an environment, so much so that **technology strategy has now become 'the strategy'** for enterprises. The only way to win in this VUCA world is to build a customer-centric organization with leaders as the change agents and an agile architecture that delivers high-quality experience to the end customer.

Section 1: The New Rules of Business is a clarion call for all of us to understand the impact of the VUCA world and digital age. We need to recognize the fact that time-tested business strategies and assumptions need to be questioned, and we need new principles and approaches to be successful. Let's get started!