

MBUS853-2027 Digital Strategy and Transformation

Queen's Accelerated MBA

Class Session 4: Digital Organization

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August 23, 2026



Smith
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Course Topics: An Integrative Perspective

Digital
Strategy

Digital
Leadership

Digital
Landscape

Digital
Architecture

Digital
Organization

... and
Partnership

Digital
Imple-
mentation

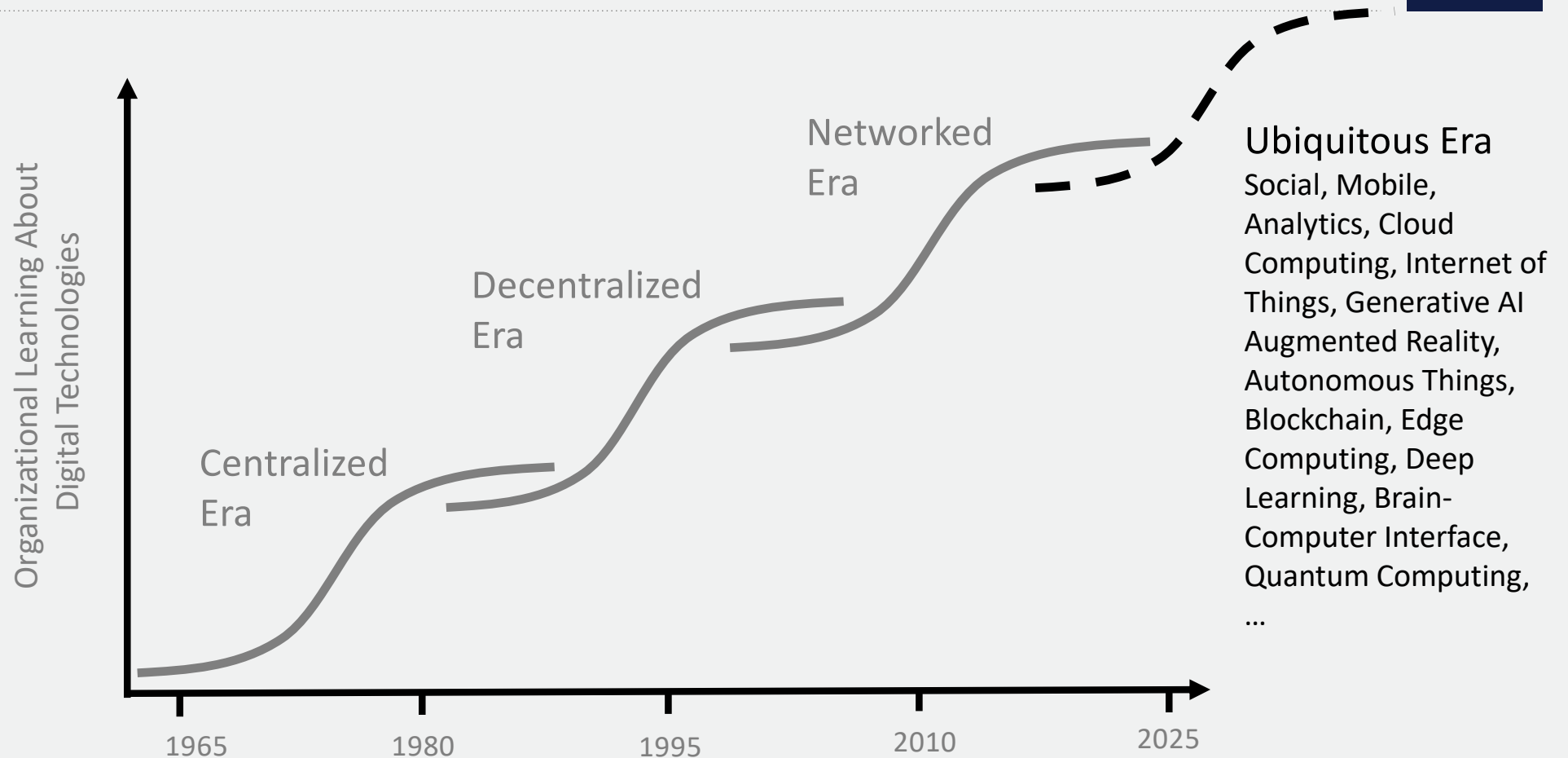
Digital
Renewal

Class Session 4: Digital Organization



- Examine the evolving organizational structures of technology-enabled businesses, and concepts and issues related to technology outsourcing and partnership.
- Article: Building the AI-Powered Organization
- Case: Pernod Ricard: Uncorking Digital Transformation

Evolution of Digital Technologies in Business



Source: W. McFarlan & R. Nolan, Harvard Business Review (Adapted)

Technology Doesn't Matter!

- “Spend less each year”
- “Follow, don’t lead”
- “Focus on vulnerabilities, not on opportunities”



Does Technology Matter? (1/2)



	Functional App	Network App	Enterprise App
Benefits	.	.	.
Ease of Adoption	.	.	.
Technical Difficulty	.	.	.

Source: A. McAfee, Harvard Business School

Does Technology Matter? (2/2)



	Functional App	Network App	Enterprise App
Initial Reaction	▪	▪	▪
Implementation	▪	▪	▪
Manager's Role	▪	▪	▪

Source: A. McAfee, Harvard Business School

What Matters for Digital Transformation



- Business **Strategy** and **Leadership**
 - Business and technology leaders must provide and demonstrate strategic business value with every technology innovation and implementation.
- Information, Technology and Process **Talent**
 - Talent is needed with both great breadth and depth in information and technology to build efficient and effective processes and workflows.
- Organizational **Structure** and **Culture**
 - Having the right organizational structure and establishing a culture that promotes collaborative work and decision making.

Mini-Case: Nexus Financial



As **Nexus Financial** pushed forward with its digital transformation, **CIO Ash Patel** noticed something unusual. Requests for IT support had dropped significantly; not because issues were resolved, but because fewer teams were reaching out to central IT in the first place.

At the next executive meeting, Ash didn't hold back. "Departments are rolling out their own software without consulting us. Finance, marketing, even HR have their own tools now. This is a mess waiting to happen."

COO Laura Jensen scoffed. "That's an exaggeration. We're just trying to be efficient. IT takes months to approve anything, and we can't afford to wait."

Head of Risk Management, Ana Torres, cuts in. "Efficient? Laura, we flagged three security gaps last quarter alone because of these unsanctioned tools. If we have a data breach, who's accountable?" Laura rolled her eyes. "Oh please, Ana. The real issue is IT slowing everything down. We need options, not red tape."

Ash's voice was tight. "You think we like delays? IT isn't just about saying 'no.' We're here to prevent the exact kind of inefficiencies you're creating disjointed systems, compliance nightmares and integration failures."

CEO Daniel Kahn, silent until now, finally spoke. "Enough. We can't keep arguing like this. Clearly, department teams need flexibility, and IT needs oversight. But we're not aligned on how to do that."

Silence settled over the room. Finally, Daniel leaned forward. "I want solutions. We need a way to balance agility with control. Let's reconvene next week, everyone comes back with a proposal." As the team dispersed, Ash left with a sinking feeling. The real challenge wasn't just IT oversight; it was getting leadership to agree on what kind of organization Nexus wanted to be. **What do you think Ash should propose?**

Organization and Partnership



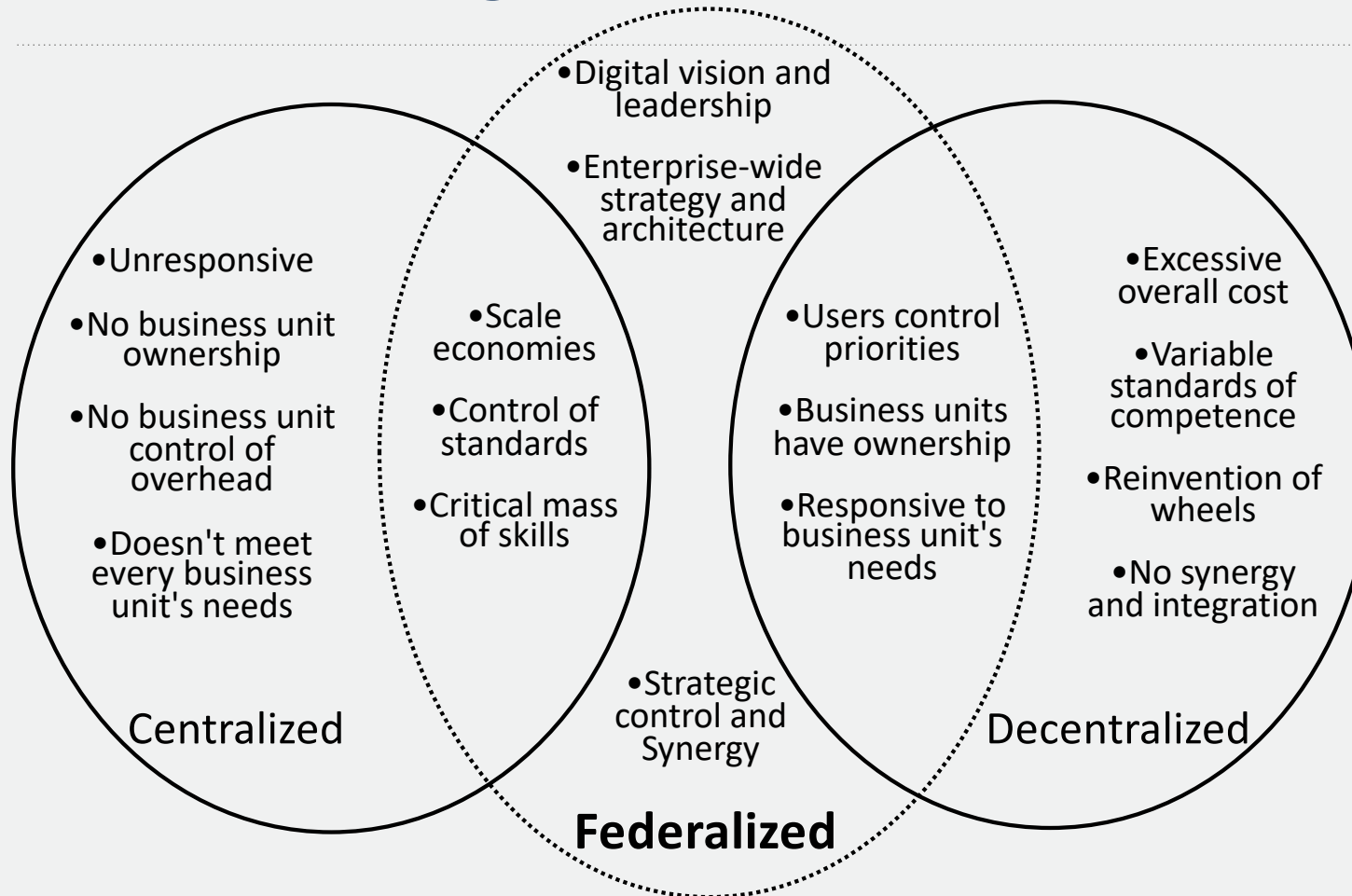
- Technology-enabled businesses are rethinking organizational structures to integrate digital capabilities across all functional areas and decision-making levels.
- Technology outsourcing and partnerships offer access to expertise and scalability but raise concerns over management control, security and privacy, and cultural alignment.
- Successful technology-enabled organizations balance in-house capability building with strategic external relationships to remain agile and competitive over time.
- *How should an organization structure itself to optimize in-house digital capabilities while taking advantage of technology partnerships?*

The Shadow IT “Problem”



- “In large organizations, shadow IT refers to information technology (IT) systems deployed by departments other than the central IT department, to work around the shortcomings of the central information systems.”
- “In order to bypass perceived limitations of solutions provided by a centralized IT department, other departments may build up independent IT resources to suit their specific or urgent requirements. It isn't uncommon for resourceful departments to hire software developers and purchase or even develop software themselves, without knowledge, buy-in, or supervision from a centralized IT department.”
- **Is there a Shadow IT “problem” in your organization?**

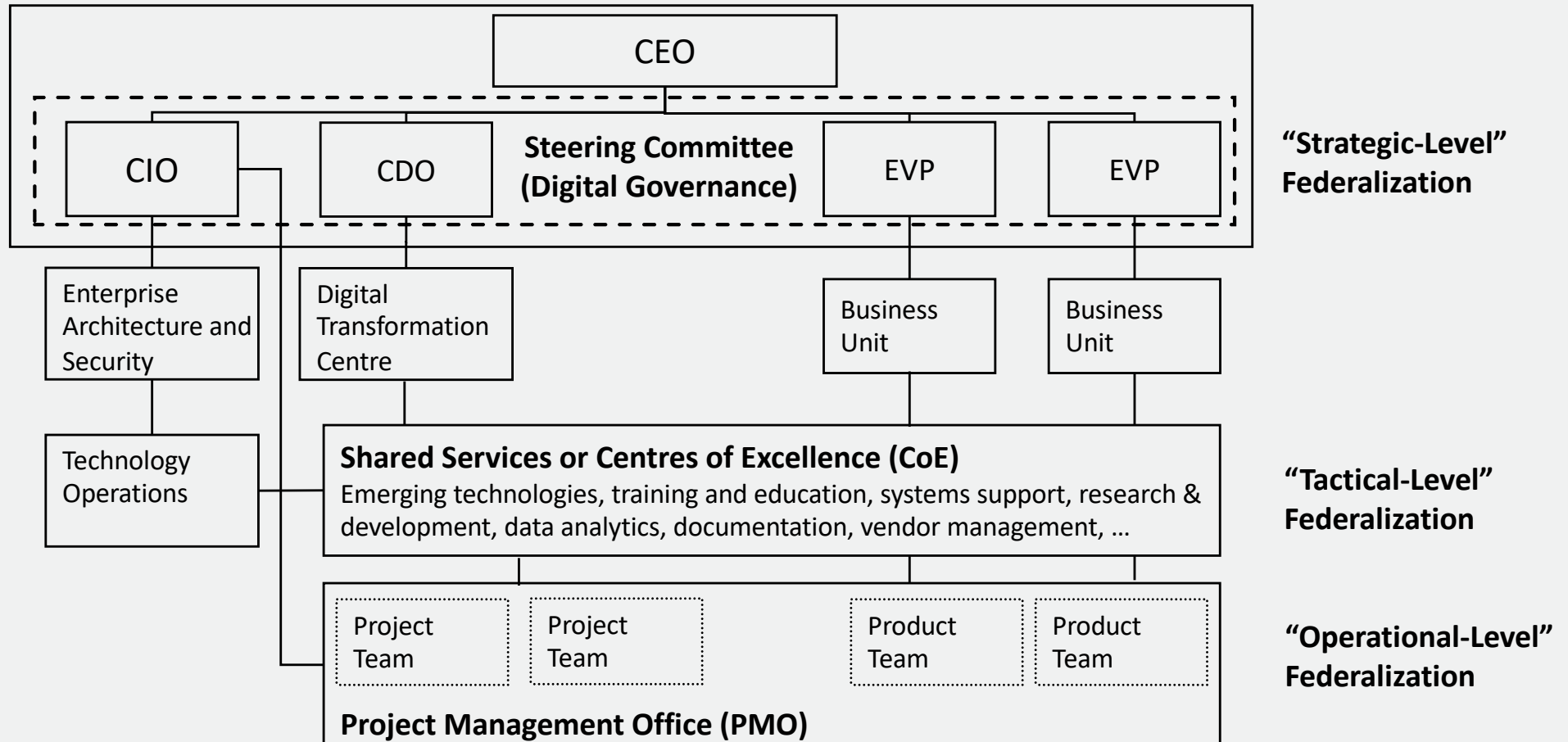
Federalized Organization



Agility and control are often seen as opposing forces, but the most effective organizations find a way to integrate both.

The challenge isn't choosing one over the other, it's designing an organizational structure that enables both flexibility and governance.

Example: Federalized Organizational Structure



Digital Governance and Steering Committee

- Digital **Governance** is made up of structures, processes and roles that are responsible for decision making, which involves
 - Making decisions about what new work to do, i.e. digital strategy
 - Making decisions how to manage existing work, i.e. digital execution
- A **Steering Committee** is a committee of senior business and technology executives to direct, review, and approve digital plans, oversee major initiatives, and allocate resources.
- *The Steering Committee is a foundational practice for Governance.* It should be established officially, with defined roles and responsibilities for decision making, and must meet regularly.

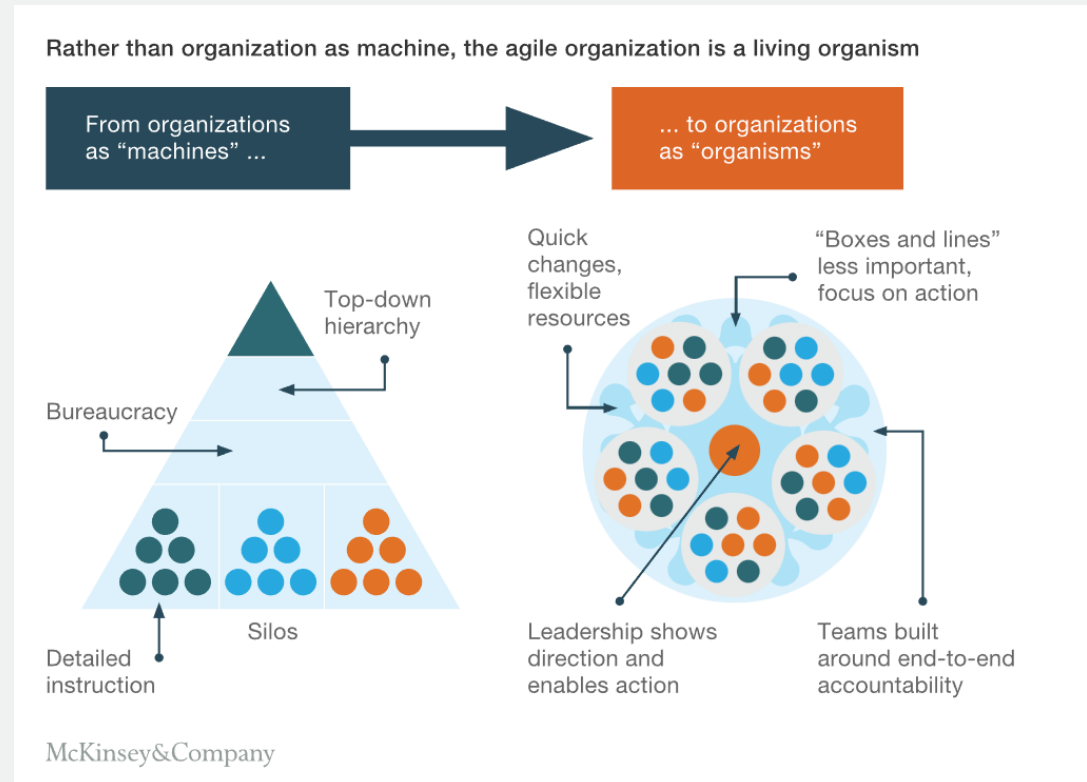
Digital Governance Principles



1. Centralize information about digital initiatives rather than the initiatives themselves.
2. Move from centralized to decentralized governance of digital initiatives as digital maturity grows.
3. Decentralize ideation but centralize idea evaluation and prioritization.
4. Make sure that KPIs measure the real business impact you want to achieve with each initiative.
5. Avoid siloed solutions by ensuring data compatibility, technical consistency, and continuous integration of new initiatives with existing systems.

Organization: From “Machines” to “Organisms”

- Traditional organizations operate like **machines**—rigid, top-down, and slow to adapt. Agile organizations, like living **organisms**, rely on empowered teams that can quickly respond to change and customer needs.
- In traditional organizations, departments function in isolation, leading to bottlenecks and misalignment. Agile organizations integrate business and technology functions, fostering cross-functional collaboration, shared accountability, and rapid decision-making.



Agile Organization: Business and Technology



- An agile organization break traditional silos between business and technology.
- Cross-functional teams include business leaders, business analysts, technologists, etc.
- Decision-making is decentralized, enabling rapid innovation and responsiveness to change.
- Business teams define strategic goals and customer needs, while business-technology teams build solutions iteratively.
- Shared metrics (KPIs) ensure that teams are working toward common objectives.
- **Squads:** Small, cross-functional, autonomous teams working on specific products and services.
- **Tribes:** Groups of squads focused on a broader business area (e.g., digital platform).
- **Chapters** and/or **Guilds:** Functional experts (e.g., data engineers) and/or informal groups (e.g., user interface designers) sharing best practices across squads.

Challenges with Agile Organization



- Agile Can Outperform Hierarchical Structures But Only Under the Right Conditions
 - Agile is not always superior to traditional hierarchical structures. Agile works best in rapidly changing environments. In stable, highly regulated, or process-heavy organizations, traditional structures may still outperform Agile.
- Agile Organizations Can Struggle with Long-Term Vision and Stability
 - While Agile promotes flexibility and responsiveness, it can lead to a lack of long-term business problems if not properly managed. Since Agile focuses on short-term iterative cycles, some organizations experience *strategic drift*—constantly optimizing for the next cycle but failing to make long-term bets.
- Agile Can Create Power Shifts That Some Leaders Resist
 - The biggest, often hidden, challenge in Agile is that it threatens traditional leadership power structures. In hierarchical organizations, senior managers often control decision-making, budgets, and strategic direction. Agile flattens these structures, shifting decision-making authority to teams and frontline employees. This shift can create resistance from some senior managers, even if they publicly support Agile.

Article: Building the AI-Powered Organization



• What is this article about? What's your insight? What's your critique?

Making the Shift

Siloed to Interdisciplinary, Data-driven, Agile

Setting Up for Success

Explaining why, Barriers (Translators), Budgeting (Integration/Adoption), Portfolio (Timeline)

Organizing for Scale

Hub-and-Spoke, Gray area, Governing Coalition

Educating Everyone

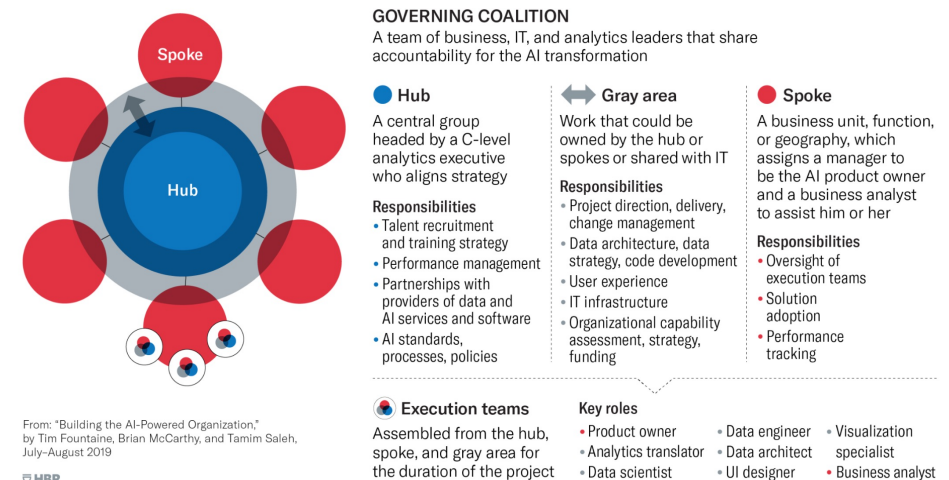
Academies, Workshops, Faculty

Reinforcing the Change

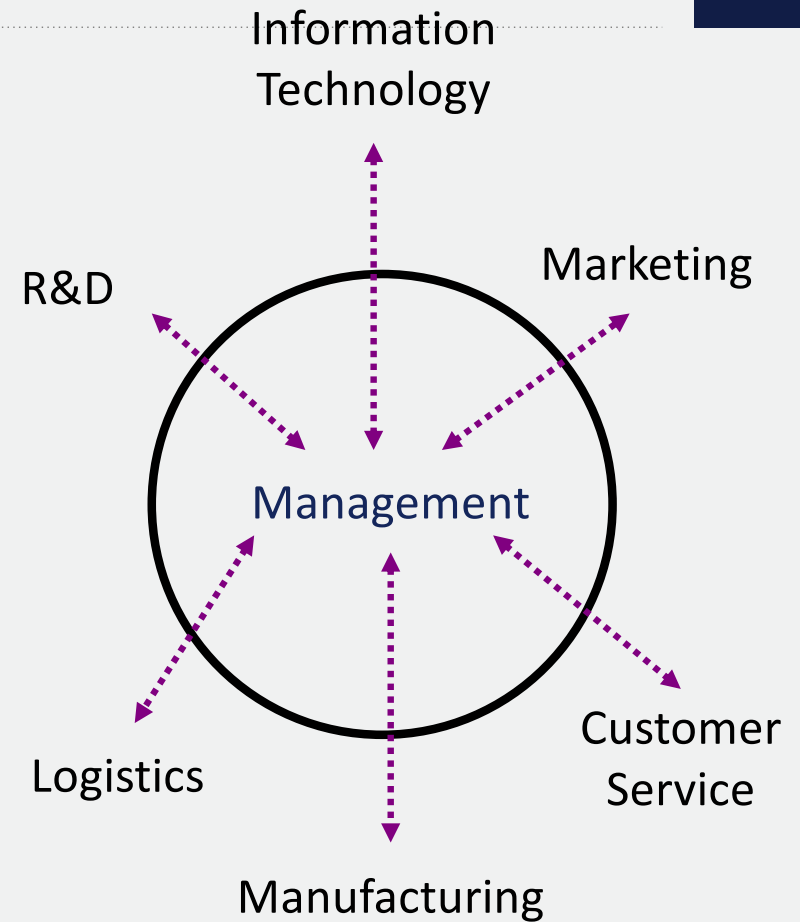
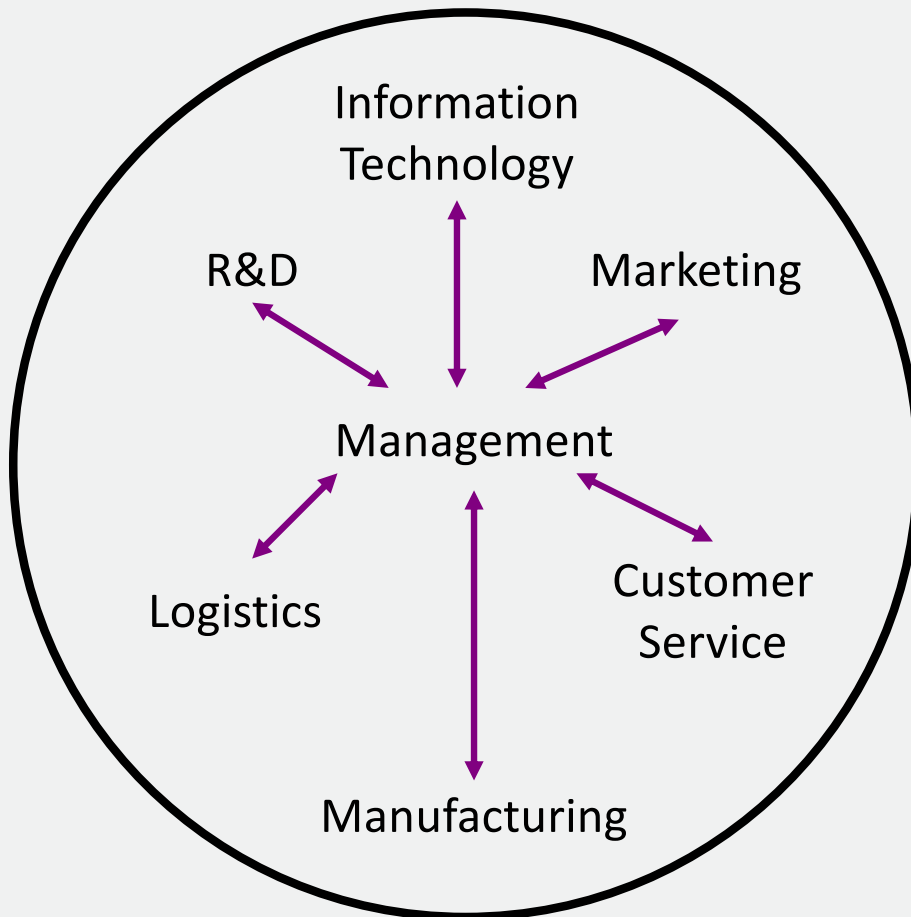
Walk the talk, Accountability, Facilitate adoption, Incentives

Organizing AI for Scale

AI-enabled companies divide key roles between a hub and spokes. A few tasks are always owned by the hub, and the spokes always own execution. The rest of the work falls into a gray area, and a firm's individual characteristics determine where it should be done.



From Vertical to Virtual Integration



Information Technology (IT) Outsourcing



- What is IT Outsourcing?
 - “The use of external service providers to effectively deliver IT-enabled business process, application service and infrastructure solutions for business outcomes.”
- Technology Outsourcing Services
 - Statista: Revenue in the outsourcing market is reached US\$541 billion in 2024. Revenue is expected to show an annual growth rate of 8.5%, resulting in a market volume of US\$813 billion by 2029.
 - Information technology (IT) services, including the software development, network operations, help desk, data management, cloud computing, and business-technology operations, ...
 - Cloud computing models include Infrastructure-as-a-Service (IaaS), Software-as-a-Service (SaaS), Platform-as-a-Service (PaaS), ...
 - Major vendors: AWS, TCS, CapGemini, Wipro, HCLTech, Cognizant, Infosys, NTT, IBM, ...

Motivations for Technology Outsourcing



Business - CEO

- Strategic business focus
- Reduce management distraction
- Acquisition or divestment
- Political/commercial relationship
- Competitive pressure

Technology - CIO

- Improve service levels
- Implement change
- Improved access to skills
- Lack of in-house infrastructure

Financial - CFO

- Asset management
- Reduce cost
- Avoid cost
- Control cost
- Make cost variable

Revenue-Orientation

1. Improve business focus
2. Access to world-class capabilities
3. Accelerated process development
4. Free-up resources for other purposes

Cost-Orientation

1. Reduce control operating costs
2. Make capital funds available
3. Resources not available internally
4. Function difficult to manage

Technology Outsourcing Insights



- For most organizations, technology outsourcing is a “process of letting go”
- Technology outsourcing “uncovers all hidden costs” in the organization
- To ensure a productive long-term relationship, technology outsourcing must be a “true partnership”
- Like any sensible business relationship, the “exit clause” must be agreed-upon beforehand
- ...

Outsourcing Core vs. Non-Core Technologies

- In theory, technology outsourcing is a no brainer ...
- Companies can unload non-core activities/technologies, shed balance sheet assets, and boost their return on capital by using third party providers
- But in reality, things are a bit more complicated
- It's really hard to figure out what's core and what's non-core
- So, how might you determine what to outsource?

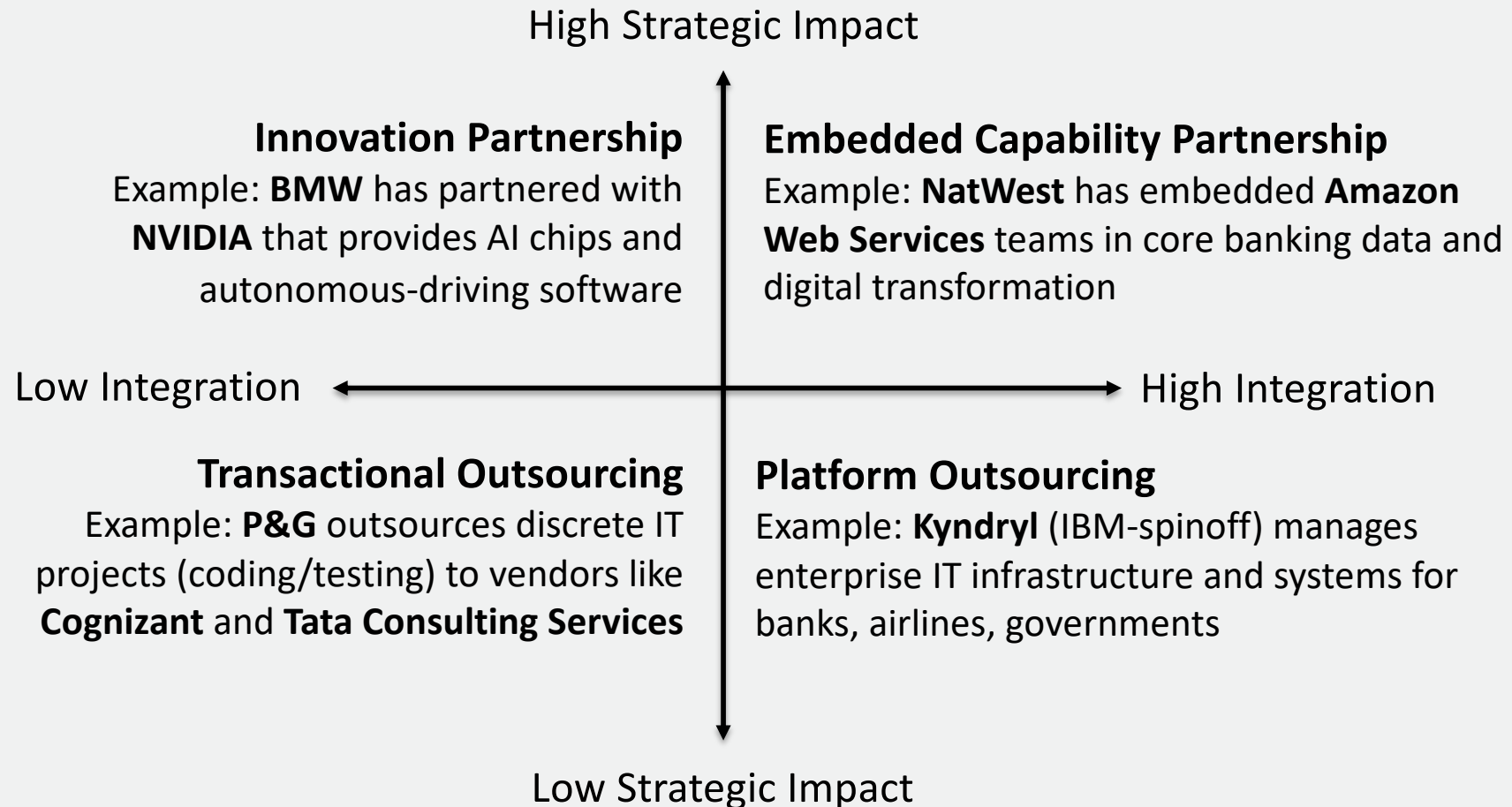
Strategic Grid for Technology Outsourcing



Operational Dependence	High	FACTORY Outsource: YES (unless well managed)	STRATEGIC Outsource: NO
	Low	SUPPORT Outsource: YES	TURNAROUND Outsource: PERHAPS (if lacking in-house expertise)
		Strategic Value	
			High

Source: W. McFarlan & R. Nolan, Sloan Management Review

From Outsourcing to Partnership Models



Build or Buy Artificial Intelligence Capabilities?



- When should companies **build** Artificial Intelligence (AI) capabilities in-house versus **purchasing** external solutions?
- Companies are rejecting this binary question in favour of nuanced approaches.
- **Build**: Develop AI capabilities in-house when they are critical to competitive advantage, rely on unique data, and justify higher upfront investment
- **Buy**: Purchase external solutions when speed, vendor expertise, and cost efficiency outweigh building internally.
- **Blend**: Combine in-house development for critical components with purchased solutions for standardized elements.
- **Partner**: Form partnerships for essential but non-differentiating capabilities, gaining technology and expertise while sharing risk.

Technology Vendor/Consultant Selection



1. How well does the vendor/consultant understand your business and IT problem?
2. What kind of assignments has the vendor/consultant conducted that are applicable to your organizational problem?
3. Are the approaches and methodology for solving both the business and IT problems clearly and succinctly presented?
4. What is the vendor/consultant's general reputation in the business community, particularly in your industry?
5. Who is the vendor's project leader or lead consultant, and what is his or her background and experience? What are the backgrounds of other team members?
6. Can the vendor/consultant provide a detailed breakdown of fees, including all costs of team members including travel/other expenses?
7. Does the vendor/consultant guarantee its work? If so, for how long?
8. Does the vendor/consultant conduct a post-engagement review?

The Magic Quadrant



According to Gartner, “Magic Quadrants offer visual snapshots, in-depth analyses and actionable advice that provide insight into a market’s direction, maturity and participants. Understanding our methodology will help when evaluating a market, choosing a technology or service provider, or managing vendor relationships.”

Criteria include:

- Ability to Execute: product/service quality, pricing, track record, marketing, customer experience, operations, ...
- Completeness of Vision: market understanding, strategy, business model, ...

Cloud Platform Services and Providers

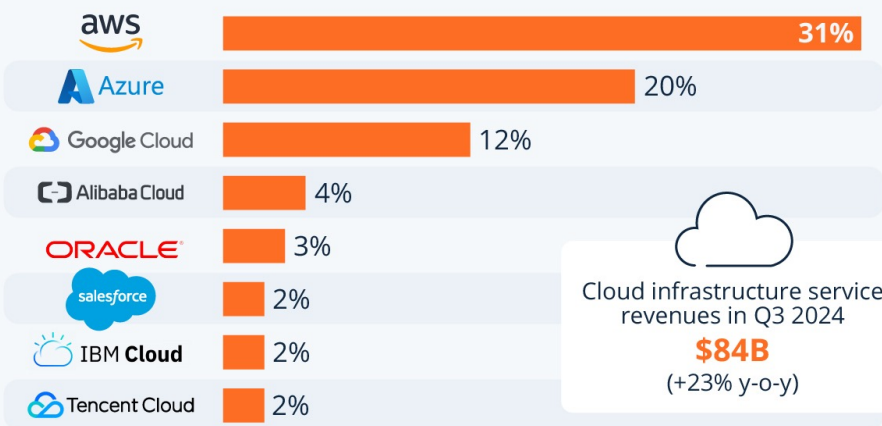
Figure 1: Magic Quadrant for Strategic Cloud Platform Services



Gartner.

Amazon Maintains Dominant Lead in the Cloud Market

Worldwide market share of leading cloud infrastructure service providers in Q3 2024*



* Includes platform as a service (PaaS) and infrastructure as a service (IaaS) as well as hosted private cloud services

Source: Synergy Research Group



statista

Leading Cloud Providers: Strengths and Cautions



- **Amazon Web Services (AWS)**
 - Strengths: Better processing power and relative price/performance, large financial commitments setting the pace in the market for innovation
 - Cautions: Clients report unexpected pressure to renew contracts, higher level of complexity of offerings requiring third-party consulting assistance, large network susceptible to cyberattacks
- **Microsoft Azure**
 - Strengths: Strong in all use cases and performance capabilities, provides broadest set of capabilities covering a full range of enterprise needs, many clients know and trust the brand
 - Cautions: Slow rollout to certain regions of the world, continues to experience some outages, offers a complex licensing/contracting process, some innovations have been less appealing
- **Google Cloud Platform (GCP)**
 - Strengths: Addresses nearly all use cases and improving performance capabilities, competencies in data analytics, has more features than competitors
 - Cautions: Some clients report instances of poor customer experience, aggressive pricing but discounting is likely to taper off

Mini-Case: Selecting a Cloud Services Provider

- **Alcotech** is a medium-sized company based in Florida. It provides billing-and-payment processing services to the alcoholic beverages industry. The company wants to select a cloud services provider for a new client-facing application. The company's executives, especially the CIO, see this initiative as a useful first step to take before moving other resources and services into the cloud.
- At Alcotech, both proprietary software and locally customized package software are used, including mostly Microsoft products. The company's CIO has received quotes from three leading cloud providers: Amazon, Microsoft, and Google.
- Each provider offers a full set of services (with minor differences) that met Alcotech's well-documented requirements. Factors such as employee training, systems administration and customer support, data and systems availability, application integration, security, and programmability are important to the company. Total cost-per-month quotes received from the cloud service providers:
 - **Amazon = \$1,638 Microsoft = \$7,301 Google = \$1,684**
- ***Based on this preliminary information, which provider would you recommend to the CIO?***

Case: Pernod Ricard

- What do we know about Pernod Ricard's and its digital transformation from the case?
- What were the issues and challenges facing Pernod Ricard?
- What is your going-forward recommendation?



Case Debrief



- Digital transformation often requires organizational structures that are fundamentally different from the structures used to run the established business. To move from experimentation to scaling to institutionalization.
Question: Can an organization truly transform digitally without transforming how it is organized?
- Digital transformation often pushes decentralized organizations toward a more federalized model: centralize what benefits from scale and consistency, while decentralizing what requires local knowledge and adaptation.
Question: What specifically should be global and standardized, and what should remain local?

Digital Organization Takeaways



1. Organizations that are scaling digital transformation must pay attention to building an **integrated yet flexible organizational structure**, establishing effective governance and decision-making processes.
2. Technology outsourcing has shifted from **cost efficiency to revenue enablement**. Partnerships can be used to accelerate capability building, but organizations must decide which capabilities are strategically important enough to ultimately own.

Reflections Journal and Next Class



- Please be sure to write your Reflections Journal entry for Session 4
 - Reflect and write on ONE key concept from the class session slides (not from the assigned article, case study, or any external sources) and the application of that concept through ONE specific example from your professional experience or personal observation (not from the assigned article or case study).
- Session 5: Digital Architecture
 - Article 5: Stop Tinkering with AI
 - Case 5: Harley-Davidson: On the Road to Digitization
 - Team Case Memo Due Thursday before Class Weekend