

Getting from *Here* to *There*

Lessons learned
from a decade of
digital transformation



Transformation is on the agenda of nearly every company. Disruptive technologies and the accelerating pace of change are constantly threatening to undermine legacy businesses. No industry or geography is immune, and even pure-play companies that were among the earliest technology disrupters are being forced to re-evaluate their strategies.

However, some companies have been at this longer than others. Brick-and-mortar retailers continue to battle Amazon by creating and evolving e-commerce strategies. Travel and hospitality companies have adapted to decades of disruption from Expedia, Priceline and other early online travel businesses. Financial services organizations have been disrupted by E*Trade and others for years. The music industry has had to respond to challenges on various fronts — from illegal downloading and sharing to streaming services — while the publishing industry has had to adapt to the growth of digital reading devices and content aggregators.

What experience have these early movers gained that can help others as they undergo their own digital transformation? We spoke with six digital veterans about their experiences: What they did right, what they would do differently, what they learned along the way and how these experiences will inform their future. Based on these discussions, we have identified five key lessons for making faster progress on digital initiatives.

- Articulate a digital strategy that positions technology as a differentiator
- Structure for speed and agility: Challenge the org chart and standard processes
- Lead from the front: The CEO and senior team must champion change
- Inject change-makers and digital influencers throughout the organization
- Create a company culture that nurtures innovation

Business growth is a fragile endeavor. Cultures must constantly shift and leaders must adapt to new threats. Perhaps these lessons will help others avoid some common landmines.

With no playbook to draw on, leaders of companies that made the transformation to digital early embarked on a multi-year journey to transform the business, figuring things out as they went along. What they learned — and what remains true today — is that digital transformation is as much strategic, organizational and cultural as technological.

Articulate a digital strategy that positions technology as a differentiator

Changing consumer expectations is a key driver of digital strategy for many companies, which strive to provide an exceptional — and consistent — customer experience regardless of channel. Without a coherent strategy to guide how new technology is adopted and delivered to the consumer, technology solutions can be hammers in search of nails, and there can be a temptation to grab the “shiny new thing.” The right strategy identifies the digital forces that are impacting the company — e-commerce, social media, big data, mobile devices, cybersecurity, the Internet of Things or cloud computing and storage — and addresses the opportunities or threats they represent. For some companies, the opportunity may be to bring products to market faster, gain efficiencies through automation or leverage new platforms for customer acquisition and engagement. Other companies may find their very business model under attack.

The desire to provide a consistent customer experience is spurring initiatives such as Wal-Mart Stores’ “One Wal-Mart” and U.K. retailer John Lewis’ efforts to build an omnichannel retail experience. These strategies help shape each business’ digital identity, provide a vision around which to rally the organization, and influence decisions about culture, processes and IT investment.

“Digital isn’t really about the pipes or the mobile device or the connectivity or the cloud or any of that. It’s really about the collection of changed expectations, and those are the changed expectations of people, in their roles as consumers or members of the organizations that we’re seeking to lead,” said Neil M. Ashe, president and CEO of global e-commerce for Wal-Mart Stores.

A bold, well-articulated strategy puts the organization on notice that transformation is coming. Wolfgang Baier, former group CEO of Singapore Post Limited (SingPost), said a bold and clear vision to digitize the business is one of the most important decisions the board and management team have to make. “Initially, people smiled when presented with the e-commerce vision and did not believe it; when they saw how much we invested into pursuing the new area and the new talent joining, they realized that there was no turning back.”

Motorola Solutions’ “single view of the customer” strategy, articulated in a formal whitepaper, drove changes affecting every part of the company, including culture, talent decisions, organizational structure and, of course, IT investment. “I’m a big believer, as you embark on a transformation, in stepping back, working with the team to state a point of view for the company. We started that exercise by saying, ‘Let’s throw away the playbook and any preconceived notions about what the company is or is not, and think about how we would transform the company through the application of technology,’” said Eduardo Conrado, executive vice president and chief strategy and innovation officer.

Structure for speed and agility: Challenge the org chart and standard processes

As digital disruption accelerates change, many companies find that their traditional organizational structure and processes are incompatible with the innovation, speed and agility necessary to keep up. Speed is an imperative in a digitally driven world, said Baier. “As leaders, we cannot hesitate to make a decision; we must move quickly, check things out and learn. We need to fail fast, learn from failure and then move on.”

In response, companies have moved to streamline their organizational structures and decision-making processes. Brazilian airline GOL moved away from a matrix organizational structure, which mired digital initiatives in lengthy approval processes, and created standalone innovation teams to facilitate faster implementation of new ideas and technology. “We had some cases of innovative projects that weren’t released quickly due to the procedures of the matrix organization structure of the company,” said CEO Paulo Kakinoff. With its more agile structure, GOL can move more quickly. “The distance between an idea and its digital realization is smaller.”

Telecommunications company Axiata Digital Services re-engineered its processes to improve its agility and speed. “A nine-stage gate approval process for major decisions and five-page job applications were just too slow and cumbersome.” Today, “if we have a great idea, we can test and launch quickly,” said CEO Mohd Khairil Abdullah.

Motorola Solutions has adopted a two-speed approach, accelerating the delivery of customer-facing initiatives through the use of a faster, agile methodology, but maintaining the waterfall approach for back-office technology development projects. This approach drives creativity and speed, while offering stability to those parts of the organization that need it.

“Some paradigms must be broken, like the matrix organization structure for the approval of innovative digital projects associated with the waterfall development model. These are incompatible with the concept of disruptive innovation,” Kakinoff said.

Also incompatible with innovation are functional and business silos that get in the way of collaboration, or communication protocols that slow decision-making. Digital at its core connects the customer and company, and this requires robust connectivity between functions within an organization. Functions and business units must work together as never before to plan and execute programs and remove barriers to information- and data-sharing.

Lead from the front: The CEO and senior team must champion change

For digital transformation to take hold, senior executives must lead and model change. “The CEO needs to be the chief digital officer of the company,” argues Ashe. “You can’t outsource it. It’s not like a channel or another line of business. It’s like water; it permeates the organization everywhere. How do you think holistically about your customer proposition, your associate population? How do you manage and lead? How do your HR systems support change? The deeper we get into it, the more everything gets exposed.”

CEOs who “get it” spend time with digital teams. They pay attention to digital trends. They’re curious. They’re empathetic, because change is hard on the organization, and have the ability to bring people along on the transformational journey. They engage people at all levels of the organization on the need for change, and are willing to admit what they know and don’t know.

“All initiatives for innovation must always be sponsored by the C-level leaders of the company,” said Kakinoff. “This is the best way to foster new ideas, regardless of whether the agent of transformation is an old or new employee in the company. We encourage our leaders to make decisions and take risks.”





Beyond being a visible champion for transformation, CEOs must change the way they assess culture and current leaders and hire new executives in order to drive organizational change. The first step is to define the elements of culture that must change to support the transformation agenda. Because the CEO and other top leaders have a disproportionate influence on the culture through what they emphasize and the examples they set, the CEO should prioritize the hiring and promotion of leaders who will serve as catalysts for change. These leaders should possess the style preferences of the ideal culture, but also have the influencing skills to model and bring along others in the organization.

Without the commitment and support of senior leaders, digital transformation is doomed to fail. So, CEOs should move quickly to make a change when a leader can't or won't support transformation initiatives. As one executive told us, a leader who does not have a change mindset may be more damaging to the transformation agenda than having no leader at all.

Inject change-makers and digital influencers throughout the organization

What skills are needed more broadly to lead change in a digital environment? Legacy companies have learned that a transformational mindset is a must, as is the ability to nurture innovation and make fast, nimble decisions. “I always hire based on a person having a transformational mindset. They need to have courage, digital understanding and be able to manage a P&L. We need leaders who can play the incubator rather than just the expert role,” said Baier. And, at Wal-Mart, “digital is creating the need for a new type of manager, one who is able to work at this pace of change,” said Ashe. Hiring innovators is far more important than industry experience. Innovation, by definition, drives first-to-market changes, so finding talent within the industry who has already driven this change is an oxymoron; companies must look outside to find the disruptor.

Communication skills are a key part of leading change and building a shared understanding of the customer. Paul Coby, IT director for John Lewis, notes that, despite the explosive growth of online shopping and the omnichannel revolution, the basics of his business have remained the same: “What you're trying to do is understand the customer's journey,” which has always been the task of company leadership.

Injecting fresh skills into the organization through the infusion of new talent can serve as a spark for digital transformation. According to Conrado, Motorola Solutions evolved quickly after making the decision to bring on a new CIO with a different set of experiences, positioning IT teams to become partners in strategic conversations about the business. Similarly, Axiata began to evolve after hiring a new head of finance and creating teams devoted to innovation and strategy.



In addition to recruiting qualified leaders from outside their organizations, companies also must be able to identify potential leaders within. GOL actively seeks new leadership internally. “We observe initiatives aimed at digital and identify who are the agents of change within our company,” said Kakinoff. Creating teams with diverse skill-sets and moving people around the organization can expose more people to new ideas and get people working together on digital initiatives.

Create a company culture that nurtures innovation

Disruption, speed and agility are ingrained in the DNA of technology startups and other companies with roots in digital technologies. But for large companies with legacy non-digital businesses, whose success has come from optimizing a stable and efficient process to deliver incremental results, developing these traits requires a concerted effort by top leaders, moving people and hiring talent from the outside the organization to build the right culture. Resistance to the adoption of new ideas is a major impediment to success of digital initiatives, leaders agreed. Legacy companies have learned that culture can be an obstacle to keeping pace with change, and that a company culture that fosters and rewards creativity and risk-taking is necessary for innovation.

Encouraging innovation means giving people the freedom to try out new and revolutionary ideas — and the freedom to fail. At Axiata, this has involved rewarding new ideas, regardless of outcome. “We changed performance management to reward people who fail as long as they learn something,” said Abdullah. At the highest levels, the board gave leadership the freedom to experiment and take risks that might not pay off right away. According to Abdullah, “I was able to say to my group CFO that I will deliver you NOP after tax for the next few years — it’s just that in this case NOP meant ‘negative operating profit’ instead of ‘net operating profit!’”

Before launching its omnichannel shopping system, leaders at John Lewis had to overcome cultural resistance to change within the company. “People within the organization were thinking, ‘Why on earth would people go online if they could buy things in a store?’ You can’t try them on. You can’t see them.” Overcoming this resistance required a paradigm shift that came from the top down. GOL had to overcome similar internal resistance to its innovative paperless ticketing system. “The resistance to the adoption of new ideas and implementation of new technologies is one of the main impediments to success,” said Kakinoff. Its digital strategy a success, the company now needs to find ways to maintain the startup culture as the business scales ever larger.

How can companies evolve their cultures to nurture innovation? At SingPost, the leadership was able to transform the company culture quickly from the top down. “The board and management had a strong vision, five core values that include total customer-centricity and a one-team approach,” said Baier. Communication was crucial to getting everyone on board, and worth the investment of time. “The biggest and most lasting change is that the organization has a can-do mindset. People have embraced the idea that they can really change things.”

Ashe agreed that communication is essential. “You have to be able to find a way to find a common ground and build a shared understanding in order to achieve a common objective.”

As part of its transformation, Motorola Solutions leaders concluded that they needed to invest in new collaborative technologies to match the culture they wanted to build. “We defined what we are and what we aren’t, and that led to a redesign of all of our systems. We said, ‘We’re a mobile-first company. We’re video first. We don’t just collaborate on email, we’re social-centric. We’re going to minimize conference calls,’” said Conrado. “That led us to wall-to-wall wireless coverage, optimized for voice, data and video inside the company. We went 100 percent voice-over-IP in North America. We moved to video as our primary mode of communication in the company and put 600 video rooms in the company and ability to communicate via video from every employee laptop.”

Finally, accept that transformation is an ongoing process

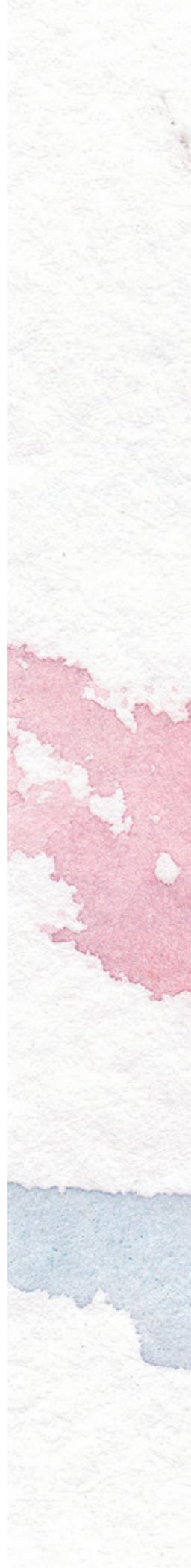
The experience of early movers suggests that, when it comes to digital transformation, questions about leadership, organizational structure and culture can be some of the most challenging — and critical to get right. Those organizations that are most likely to be successful place those issues front and center; they articulate a bold strategy; challenge organizational structures and processes that get in the way of change; have strong CEO and management team ownership of the transformation agenda; get the talent mix right; and build a culture that supports innovation and change.

But experience also shows that simply mastering the moment will not be successful over time, as technology and human behavior rapidly evolve. Digital transformation is not a “project” with a finite end. New disruptive technologies will emerge and customer behavior will continue to change, so organizations must be able to evolve and find new ways of doing business.

Success over time requires ongoing attention to leadership, processes and culture to ensure they continue to support the digital business strategy. Companies also should take a hard look at their talent management processes. The war for talent is real, and organizations that aren’t able to recruit the best and the brightest are doomed to failure. The best organizations adapt their human resources practices to shorten recruiting time, think creatively about compensation and organizational structure, and continually assess the elements of culture that support and impede digital transformation.

Authors

Grant Duncan (London), Danny Koh (Singapore), Anthony Laudico (Stamford), Marcelo Marzola (Sao Paulo), Malini Vaidya (Singapore)



Amsterdam
Atlanta
Bangalore
Barcelona
Beijing
Bogotá
Boston
Brussels
Buenos Aires
Calgary
Chicago
Copenhagen
Dallas
Dubai
Frankfurt
Geneva
Hong Kong
Houston
Istanbul
Johannesburg
Lima
London
Los Angeles
Madrid
Melbourne
Mexico City
Miami
Milan
Minneapolis/St. Paul
Montreal
Moscow
Mumbai
Munich
New Delhi
New York
Orange County
Paris
Philadelphia
Prague
Rome
San Francisco
Santiago
Sao Paulo
Seattle
Shanghai
Silicon Valley
Singapore
Stamford
Stockholm
Sydney
Tokyo
Toronto
Vienna
Warsaw
Washington, D.C.
Zürich

About Spencer Stuart

At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 56 offices, 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness.

For more information on Spencer Stuart, please visit www.spencerstuart.com.

Social Media @ Spencer Stuart

Stay up to date on the trends and topics that are relevant to your business and career.

