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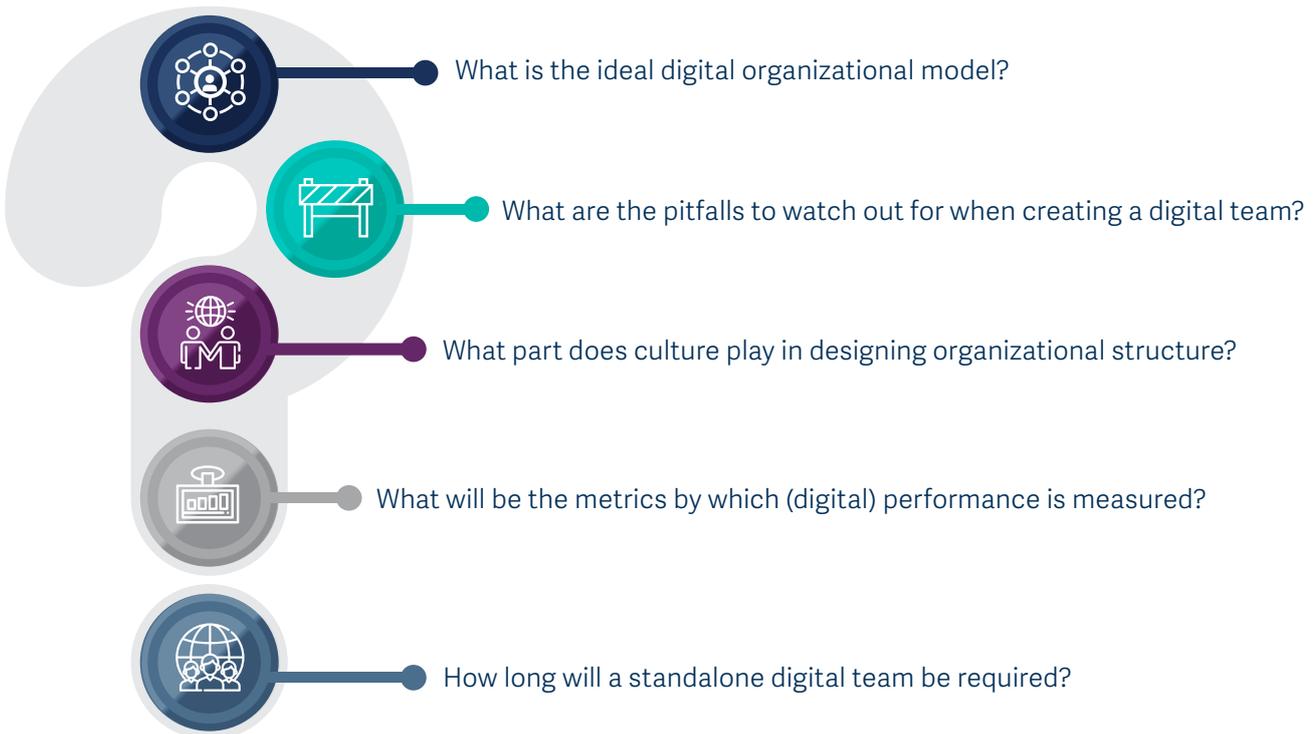
Lessons Learned:

# **Organizing for Digital Transformation in Industrial**

## Conceptualizing digital transformation

Digital transformation is currently one of the key challenges that industrial leaders are grappling with. As industrial companies evolve to ensure they stay relevant in the new ecosystem, building a high-performing and effective digital team should be a key priority.

### QUESTIONS ON TOP OF EXECUTIVES' MINDS:



### WHAT WE HAVE HEARD FROM INDUSTRIAL EXECUTIVES:

*You cannot cut and paste someone else's digital organization or transformation model. What works depends on the digital and transformational maturity of both the company and their board and what type of model they are willing to accept*

- Chief Digital Officer, European industrial corporation

*It's never easy to change an existing business model and organizational structure; however, it is critical to embed digital into every part of the business*

- CEO, Digital, US industrial corporation

*We have a hybrid model for our digital team – due to our highly collaborative culture, no one wants to be 'run over' by a corporate program*

- CHRO, European industrial corporation

*A centralised Data & Analytics team breaks through organizational siloes and unleashes the transformative power of IoT*

- Head of IoT for Industries, US software & technology corporation

## Organizational models for digital

There are three main organizational models to drive digital business: centralized, decentralized, and hybrid. Each has its own strengths as well as vulnerabilities. In some organizations, the hybrid model is referred to as “federated” or “hub and spoke”.

Central Team

Business Unit Team

### Centralized



43%\*

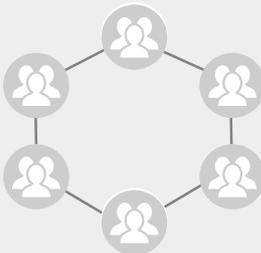
Central digital team at the group level

- Advantage of consistent messaging and branding throughout the business
- Risk that digital team can turn into an isolated “island”
- Buy-in from business units and implementation can be challenging

*It's important to ensure that your digital team does not operate as an isolated island*

– Head of IoT for Industries, US software & technology corporation

### Decentralized



13%\*

Each business unit has its own digital team

- Beneficial that expertise is embedded across the business units
- There will likely be missed opportunities for synergies such as centralizing data science
- Hiring top talent can be challenging since they will not have a group-level role

*The challenge with a decentralized model is how to unite many separate pilots*

– Head of IoT, European software corporation

### Hybrid



42%\*

Combines a central digital team with teams in the business units

- Digital teams in the business units mean that every division feels ownership and accountability
- Digital central hub has benefit of having oversight across business units, and, thus can cross-fertilize successful outcomes
- There needs to be real collaboration between the central team and business unit teams for model to be successful

*In my opinion, the hybrid model is the most effective as it combines a central hub with decentralized teams in the business units*

– Head of IoT, European software corporation

\* Percentage of Industrial Goods respondents (N=67), 2% Other, RRA Digital Pulse Survey results, 2017.

# Key considerations when developing the organizational model for digital

## Evolve existing model

If digital capabilities are currently organized into a central digital team, it is timely to evaluate how to successfully integrate these capabilities with business units. If digital experts are scattered throughout the organization, it is important to centralize key capabilities to ensure synergies and a consistent strategy and approach.



## Evaluate cultural readiness

Evaluating a company's cultural openness to digital adoption is important in determining which organizational model will enable the digital team to be most effective. Look closely at other functions in the organization and how they are structured, as some cultures cannot integrate functional models that run counter to those which their business is accustomed to.



## Partner closely with HR

No matter the stage of the digital transformation, engage HR to implement a program to support the direction, create a training agenda and get wise as to how much you can accomplish in a certain span of time, and determine what talent may need to be developed or acquired to achieve the desired results.



## Design KPIs that encourage collaboration

It is important to ensure that the performance metrics for the digital team encourage the outcomes the organization is trying to achieve. For example, report digital revenues at business unit level to encourage collaboration with the business units and implementation of digital concepts there.



*Our company is a large matrix and has tens of diverse lines of business. We therefore designed digital teams that cut across lines of business that are affected by similar external factors (in addition to our Digital Centre of Excellence)*

– Head of IoT & Digital, European industrial corporation

*Change management is really hard and the talent and culture issues are the hardest but you absolutely need to get them right. Technology in comparison is easy to figure out*

– CEO, Digital, US industrial corporation

## Lessons learned

**Action may be necessary, but timing is everything:** Decentralizing might be the right decision to ensure that business units take ownership of their future, but a premature shift can have negative consequences. Some executives shared the frustrations of decentralizing before the digital strategy has been woven into the fabric of the organization.

**Transformation is a shift in process and culture:** Digital transformation requires a shift in culture as well as in organization structure. Since culture is driven by the top leadership of the company, digital transformation needs to be a priority for the Board and the CEO. Culture change requires an environment that encourages success but also leaves room for failure. This happens in “people policies” – such as performance assessment and compensation. In addition, some companies are investing in office layouts that facilitate a culture of collaboration, flexibility, and innovation.

**Integration blurs the line between digital and non-digital:** Over time, digital will become integrated into the business units, and the distinction between digital and non-digital will disappear. It is likely that key digital talent, especially those who have had P&L responsibility, will move into executive roles in the business units.

### As digital migrates into the business, the profile of the industrial executive will change

As a result of the integration of AI and an increasing reliance on algorithms for decision-making, executive behaviours will need radical rethinking. The industrial experts we spoke with have expressed the importance of the following traits and skills:

- Being a collaborative and empowering leader
- Openness to “not invented here”
- Understanding the art of the possible
- Influencing/managing stakeholder expectations
- Ability to execute in a complicated, matrixed structure



*Digital literacy will migrate into the business units, but the mandate for the CDO will remain – you cannot have real thought leadership in every region or division*

– CHRO, European industrial corporation

*In hindsight, I recommend not to compromise on the quality and cultural fit when recruiting key digital talent. Fixing talent issues later on is a much bigger headache*

– Chief Digital Officer, European engineering and electronics company

## AUTHORS

**JUHA-PEKKA AHTIKARI** is a Managing Director based in Helsinki.

**JAN CRON** is an Executive Director based in Munich.

**DAVID FINKE** is a Managing Director based in Palo Alto.

**SARAH GALLOWAY** is an Executive Director based in London.

**MATTI TAKALA** is a Research Director based in Helsinki.

**SAMPPA NYLUND** is an Associate based in Helsinki.

**JENS-THOMAS PIETRALLA** is a Managing Director based in Munich.

**SUSANNE SUHONEN** is a Global Knowledge Leader based in Houston.

**NATASHA TRESCHOW** is a Knowledge Associate based in London.

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