Global Leadership

A Necessary Call to Action:
Addressing the Digital Imperative

The digital revolution—the pervasive incorporation of digital technology into virtually everything—is arguably the greatest force of change in today’s economy. Across industries and regions, digital innovation is disrupting traditional businesses and giving rise to a sweeping range of new capabilities, products, services, channels and competitors. For most organizations, responding to digital opportunities and threats has become a matter of necessity, not choice. And the response must go beyond mere tinkering; digital lip service will not suffice.

Instead, the digital imperative calls for wholesale transformation that cuts across every aspect of how companies engage externally and operate internally. And the magnitude of these transformations requires transformational leadership.

It’s Different This Time

Skepticism in the face of such claims is understandable. After all, the dot-com frenzy at the turn of the century produced plenty of predictions about sweeping changes that failed to materialize. What is changing this time is how businesses generate results. Specifically, there are four forces that have irrevocably altered the ways in which we work and live:

- **Social Media**: Social tools such as Facebook, Twitter, Tumblr and LinkedIn have fundamentally changed how people interact and organize, as well as how we create, consume and share information. Roughly one in seven of the world’s inhabitants has a Facebook account, and Facebook’s photo collection already is \(10,000\) times larger than that of the U.S. Library of Congress.
■ **Mobile Devices and Apps:** The ubiquity of mobile devices and applications is significantly altering the dynamics of communication, collaboration and commerce. Mobile now constitutes 13 percent of all Internet traffic vs. 4 percent in 2010. Apple’s App Store downloads are projected to reach 60 billion in 2013.

■ **Big Data:** Rapidly declining data storage costs are combining with increasingly sophisticated analytic tools to create prodigious data assets that can be used to target customers and serve them better, refine operations and create monetizable products. More than 2.5 billion gigabytes of data are produced every day—and that number is doubling every 40 months.

■ **Cloud Computing:** A core technological innovation that enables the three forces above, cloud computing has radically altered how software is deployed and data are delivered. Global expenditure for cloud services is expected to reach $100 billion by 2016 vs. roughly $40 billion in 2012.

**No Exemptions from Digital Transformation**

Combined, the inexorable progress of these trends generates a necessary call to action for companies in virtually every industry. Here’s why:

**First,** digital tools have dramatically altered how buyers and sellers interact in both consumer and business-to-business environments. Sellers can target new buyers with increasing levels of precision (often across geographic boundaries), reaching them in creative ways and engaging them at scale. And buyers have new tools as well, lifting the fog of information asymmetry and enabling them to discover and share perspectives on sellers and products. These changing patterns of consumption and interaction are opening additional markets, driving the establishment of new capabilities and shifting the economics of sales channels.

**Second,** digital innovation evaporates long-standing constraints on scalability and dissolves traditional barriers to entry. Robust cloud-based infrastructure can be rented for a few hundred dollars a month, meaning formidable companies can be started with funding from a credit card. At the time of its acquisition, Instagram had more than 100 million users supported by approximately 16 employees. craigslist, with only 30 employees, operates 700 local web sites in 70 countries, with users posting more than 100 million classified ads each month. PayPal (which doesn’t have a branch network) recently reported that the total value of its 2012 transactions was $145 billion, up 22 percent year over year.

**Third,** market forces are changing the rules that govern how all the players interact. Allies morph into competitors, and competitors collaborate. Products that used to be sold are given away, and these giveaways lead to other items being sold (e.g., the rise of so-called “freemium” business models). New products and services can be sold in unusual ways. And suddenly, even long-established, well-run businesses have to rethink the structure of their value chains.

These forces leave no sector exempt from action. While digital transformation might appear most obvious in the context of technology and consumer businesses, its impact spans virtually all industries. Social media, mobile connectivity and data analytics are fundamentally changing how healthcare providers, patients and payers interact. Ubiquitous wireless sensors and controllers...
that form the “Internet of things” are fundamentally transforming how factories operate and how energy is discovered, generated and distributed. Universities and arts organizations are sharing and monetizing content that previously was completely inaccessible outside the confines of their buildings. Constant connectivity and location-based services are turning the automobile into the ultimate smart mobile device. The list goes on.

Within the organization, these digital imperatives often require distinct skills, processes and organizational structures. And the shift to these capabilities must be managed in the context of powerful legacy structures that frequently resist change. This particularly is true at the functional level. Marketing has been altered by the power of digital tools, data analytics, social networks and the ability for customers to impact brand image directly. Internal IT functions have been upended by the rise in cloud computing and low-cost, lightweight applications that allow large chunks of the IT function to be reliably outsourced. Critical processes from product development to supply chain management to customer service are being reinvented by the implementation of mobile applications and real-time data analytics.

With these interweaving forces disrupting business models and greatly magnifying both missteps and shrewd moves, mastering digital transformation is not an optional endeavor whether your business is telecommunications or textiles. Recent history is littered with the failures of everything from booksellers to enterprise software companies that underestimated the impact of digital change.

Digital Transformation Is a Leadership Discipline, Not Merely a Specialized Department

How, then, should organizations respond? Successful digital transformation is not merely a question of hiring a handful of digital savants. A digital transformation necessarily impacts the entire organization, requiring leadership at multiple points across the enterprise:

**The CEO:** The implications of digital are too profound for the CEO simply to offer cheerleading support—he or she must develop and lead the vision of digital transformation that aligns with the company’s strategy. This necessarily entails making a compelling case for change, managing points of resistance, and effectively communicating the digital strategy to investors, analysts, customers, suppliers and the board.

**The Board:** If the CEO sets the course and oversees the process of digital transformation, it follows that the board of directors must have a certain critical mass of digital capability and experience as well—not only to provide effective guidance to the CEO but also to manage the CEO succession process, given that the company’s next top executive will need to continue leading the digital charge. A presentation to the board by an occasional guest speaker is not enough.

**Digital Functional Leadership:** Except in the most digitally mature organizations, it often makes sense to appoint a dedicated functional team to lead the charge. Depending on the industry and situation, this might entail expanding the chief information officer’s or chief technology officer’s role, creating new C-level leadership positions such as chief digital officer or chief data officer or installing a senior digital executive who reports to the chief marketing officer or chief operating
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Digital transformation requires leaders at all levels to quickly make sense of rapidly changing environments, develop and execute strategies in an agile and iterative manner, and manage the process of change throughout the organization. Achieving these goals demands the right leaders in the right roles at the right time.

officer. Diversified companies may benefit from multiple, collaborative centers of digital expertise housed within business units. The optimal structure will be determined by the specifics of the company’s digital strategy. Whatever structure is decided upon, roles and relationships must be clearly defined—both with the leaders of the digital function and among executives throughout the organization.

Business Unit and Functional Leaders: A decade ago, the chief information officer served as the gatekeeper for most enterprise digital capability, but the rise of cloud-based enterprise solutions has enabled functional and business leaders to better and more easily harness the power of digital in their operations, sometimes without the blessing of the chief information officer. Even in organizations where IT remains strongly centralized, the bar for digital aptitude is rising rapidly, making digital savvy, similar to financial savvy, a core skill for any senior-level business unit or functional manager across sales, marketing, operations, engineering, and customer service and support.

In Summary
Digital is part of every leader’s job description, albeit in different ways. Digitally adept companies (through forward-thinking boards and CEOs) don’t leave this to chance but, instead, initiate, institutionalize and enable the various “digital cells” across the enterprise.

Cases in Point: Accelerating Digital Transformation across Sectors and Functions
Russell Reynolds Associates has been privileged to assist a wide range of leading companies in successfully navigating their digital journeys. We combine the experience of our Digital Transformation Practice with the subject-matter expertise of our industry-specific practices to help companies assess how digital strategically impacts their enterprises and human capital requirements.

We help clients determine how best to configure their organizations for digital transformation—advising on the type of leadership required and then how to identify, recruit and retain leaders who can create the digital future. Below are just a few examples of our work with clients over the past 12-18 months.

A global insurance company sought to create a new chief data officer position to leverage data and analytics to help drive revenue growth, capital allocation, risk management and other critical functions. We recruited a head of analytics from another global financial services firm to the role, where she has used data to give her new company a more sophisticated approach to customer experience, customer retention, product development and internal hiring.

A leading provider of waste and environmental services needed a chief information officer to revolutionize the customer experience across the Internet, mobile and other channels; digitize supply chain and distribution processes; and leverage data and analytics to refine business strategy. We recruited the chief information officer of a leading online professional network who since has established world-class logistics and decision sciences functions in the new enterprise, giving it the infrastructure it needs to achieve its strategic goals.
A global automotive company needed a group CEO and two senior executives for the business unit charged with establishing vehicle infotainment ecosystems. We recruited the vice president of marketing for the home products division of a global consumer electronics innovator, a general manager of consumer direct products from a major computer hardware company and a director of platform client applications from a global online entertainment channel. The team now is leading the effort to create a vehicle experience that will be a key point of competitive differentiation in the company’s sales, brand and market position.

One of the world’s largest retailers sought a chief technology officer and a vice president of engineering to head its online unit and drive growth around the globe. The successful candidates were recruited from a leading online marketplace and have created powerful online strategies. They have become instrumental in fulfilling the CEO’s vision of making the company more flexible, experimental and entrepreneurial—and a major player in e-commerce.

A luxury lifestyle brand in women’s apparel needed a chief information officer who could help the company manage an annual growth rate of 50 percent and execute ongoing international expansion. We recruited an executive who had served as chief information officer of several well-known brands. Since his arrival, he has built the strategic road map for the organization’s people and processes so it can continue to scale without sacrificing the company culture.

A global online marketplace needed a vice president of marketing to solidify the first-mover advantage it had in a key product category. The position demanded an executive who could combine analytical rigor with creative and innovative marketing strategies. The successful candidate, who had held positions at numerous digital companies, has kept the product innovative and compelling in the face of significantly increased competition.

One of the world’s leading medical schools sought a chief information officer who could lead its information technology function and support innovation in a cutting-edge research and educational environment. We recruited the head of information technology for R&D at an established biotechnology company with a track record of establishing collaboration across IT functions and implementing strategy-driven governance processes.

A publicly traded biotechnology company needed a board director to help guide it in leveraging data analytics for more effective marketing, engaging in collaborative R&D and building online patient communities. The successful director candidate became general manager of a global information company’s enterprise marketing function after the company acquired his data analytics business.
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