

Do You Have The Digital Leaders You Need?

By Jeffrey F. Rayport and Tuck Rickards

These days you can't have a business conversation without discussing digital — social, local, mobile, big data, the cloud. But that's just talk. We wanted to discover what companies are really doing about this new world, so we analyzed the backgrounds of the CEOs and directors of America's largest companies.

The answer is surprising.

Only nine companies — less than two percent of the Fortune 500 — are what we would call "highly digital." To be highly digital, by our definition a company must pass four tests: it generates a high percentage of revenues digitally; its leadership (both the CEO and the Board) has deep digital experience; it does business significantly enabled by digital channels; and it's recognized as transformational in its industry.

If you narrow the scope to the Fortune 100, the data are still relatively weak. Seven percent of companies are highly digital. Perhaps, more surprisingly, only 13 percent have highly digital boards of directors.

You might focus exclusively on company leadership, but, of course, boards matter: they provide strategic counsel to the CEO and, crucially, they plan for CEO succession. To guide companies in innovative ways, boards must know what innovative looks like.

It's clear the tide is turning — and it's turning fast. We believe it's no coincidence that the largest and most successful companies in our economy are leading this change. Just consider what some established companies have done recently to address their digital capabilities gap at the highest levels of leadership and governance.

At HP, Meg Whitman, the former CEO of eBay, has moved from board director to CEO. At old line retailer JC Penney, Ron Johnson, the former head of Apple's retail operation, was recently appointed CEO — though the news of late calls into question how well these marriages of new and old worlds will fare.

Predictably, companies with the most digital boards are in sectors of the economy where digital matters most, either because it's the core of the business or because it's disrupting the core business. It's no news to confirm that technology companies — such as Amazon, Apple, Cisco, Dell, HP, Google, Intel, Microsoft, and Oracle — have boards awash in digital expertise.

Perhaps the most significant finding is that there are boards on their way to becoming highly digital in sectors where you would least expect them, such as consumer packaged goods: the boards at Pepsi and Procter & Gamble. In retail, there's Wal-Mart. In distribution, there's Ingram Micro and Sysco. In financial services, there's Berkshire Hathaway. And in services, there's FedEx — though you might argue that FedEx has always operated as a highly digital company that happens to have planes and trucks attached.

Given the increasing influence, even dominance, of social and mobile technologies, we expect to see a similar evolution take place in more "unlikely" sectors: health care, industrial goods, natural resources.

At the board level, when done right, certain patterns emerge: leading companies have jumped in with both feet. Leaders have recruited between two and four directors (or more) with hands-on or board-level digital experience. A token digital director is no longer sufficient. While many recruits are digital CEOs, companies are widening their aperture to consider more youthful, non-CEO candidates. Disney added Sheryl Sandberg of Facebook; Wal-Mart added Marissa Mayer of Google; and eBay has added Katie Mitic, also of Facebook. In other cases, candidates are coming from non-public, venture-backed firms.

Some CEOs are learning by doing. Bill Ford of Ford Motor is a director at eBay; and Bob Iger of Disney serves as a director of Apple.

If you're in a leadership role at a F500 company, we think it's clear where your priorities should lie. Those companies "born digital" — such as Amazon, Google, and Facebook — inevitably have top talent to match their businesses. Companies in technology, media, and communications, for example, which have not attracted such talent, are paying the price. Just look at the damage done to high-tech players in the mobile industry when leadership misses a major technology trend like the advent of the smart phone.

So what should you do about this? If you're leading the show, it's high time to make a clear-eyed gap analysis and course-correct accordingly. If you're in middle management, start lobbying for leadership to match the challenges your company will face. Here are some pointers from what we've learned:

- Recruit at least one digital director to your board. You have to start somewhere. We cannot imagine how a company could fail to benefit from such experience, perspective, and guidance.
- Not all digital experience is created equal. Make sure your prospective C-level or director candidate is aligned with the types of digital opportunities and challenges your company faces.
- Within your executive team or your board, identify the functions where the impact will be greatest; then make sure you have a candidate who has the capabilities to align with those functions.
- No board director or senior executive will have impact, no matter the expertise, without cultural fit. This is an eternal verity, but it applies here.
- Finally, ask yourself the obvious question: do you want to be a leader or a follower? Our research shows that the winners are those who've tackled these key issues early and decisively.

Over the next couple of years, we predict enormous changes in C-suite and board composition based on digital chops. The question is clear: Do you have the digital leaders you need?

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