

**Leadership for a Changing World.** Articles in our *Leadership & Talent* series address key issues companies face in creating effective talent management strategies—to identify, develop and retain successful leaders and leadership teams.

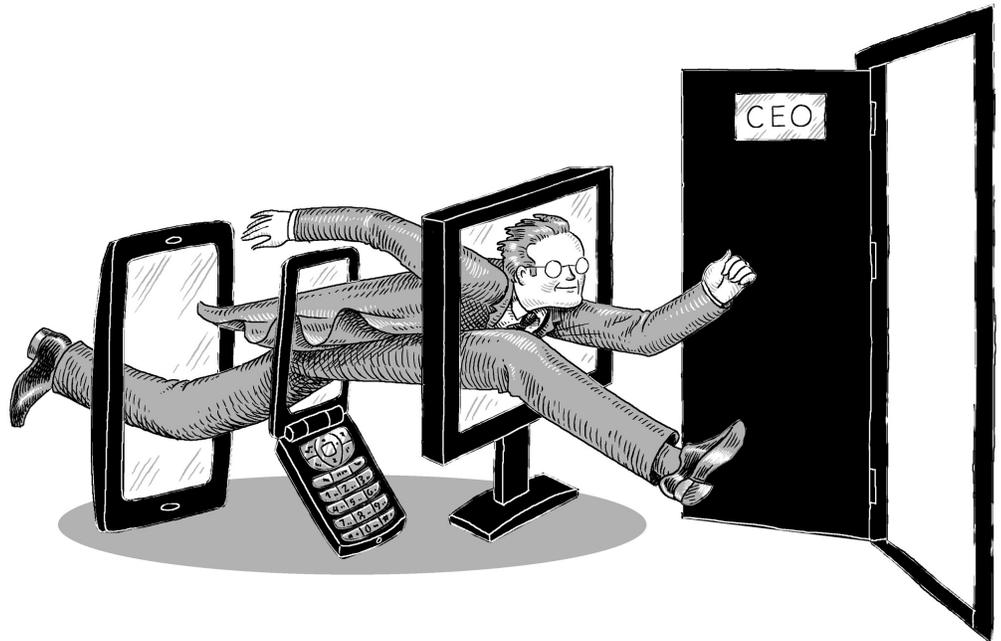
## The Rise of the Chief Digital Officer

The challenges and opportunities for businesses in this digital age are enormous. Companies need to be fleet-footed to keep pace with changing technology and consumer behavior. Business strategies now must be seamlessly interwoven with ever-expanding digital strategies that address not only the web but also mobile, social, local and whatever innovation there may be around the corner. To help meet these challenges, companies are increasingly looking for a Chief Digital Officer (CDO) who can oversee the full range of digital strategies and drive change across the organization. In this issue, members of the Consumer and Technology teams at Russell Reynolds Associates look at the rise of Chief Digital Officers and their potential for CEO succession.

### What is a CDO, and why does the role matter?

Customers are demanding fresh information and the ability to buy wherever, whenever and however they want. The numbers are hard to debate. More than 200 million iPhone and Android smartphones now are in consumers' hands, and demand shows no sign of abating. Some 41 million apps are downloaded every day, and social networking is expanding on a geometric scale. Consumers are leveraging their digital resources to download information, compare prices, find the best products and search for deals.

It's no surprise then that the seniority and caliber of digital talent that companies are seeking to recruit are on the increase. Traditionally, digital was positioned as part of the marketing function within the business, responsible for driving



the organization's online presence. The last two years have seen the rise of the Chief Digital Officer, a senior executive who sits at the right hand of the CEO and is seen as instrumental to the future of the organization. For many companies, especially those in the retail and leisure sectors, digital is the fastest-growing revenue stream, and a

Chief Digital Officer (or, sometimes, SVP Online) is extremely important in driving that growth. In some sectors, such as traditional media, the CDO often will have been hired to help transform the company as its products evolve digitally.

In both cases, the CDO needs to be someone who not only has digital acumen but also is a

seasoned general manager who can operate within a large-scale business and influence effectively across the organization. This is a relatively new type of leader and one who is hard to find, attract and retain. The increasing importance of the role eventually will put CDOs in the queue for CEO succession. CDOs will be the executives with the operating experience, management skills, strategic mindset and vision to lead businesses in an increasingly technological future.

The spike in demand for Chief Digital Officers has been felt globally. In Europe, the number of search requests for this role has risen by almost a third in the last 24 months. The United States has seen the same growth in half that time. The increase in Asia is less

**“We are at the beginning of a new era for social Internet innovators who are re-imagining and re-inventing a web of people and places, looking beyond documents and web sites.”<sup>1</sup>**

—John Doerr; Partner;  
Kleiner Perkins Caufield  
& Byers

pronounced, where the position remains relatively junior, though things there are evolving. The

challenge in Asia is more about attracting talented executives to join established companies who otherwise might set up their own digital enterprise.

The sharp rise in demand for CDOs has been matched by an equally sharp rise in the level of compensation offered. Today's high-quality CDOs command double the remuneration levels of their predecessors, reflecting the scarcity of talent and increasing seniority of the role. Pay and benefits put the Chief Digital Officer on par or above other executives at Board or sub-Board levels. In Asia, this trend has been less pronounced. It will take time for companies there to escalate the digital function to a more senior level—but the continued rise in consumer Internet and mobile use inevitably will drive similar demand.

### What's driving the evolution of the CDO?

Social media and the enabling technologies are fundamentally reshaping how consumers behave. Smarter, quicker and more advanced mobile telephony brings with it a wide range of possibilities for business such as media companies, retailers and information providers. Services that combine social and local elements are becoming the norm. All of this is forcing organizations to rethink their market and customer strategies. Some staggering statistics:

- In March 2011, Apple announced it had sold its 100 millionth iPhone. As of July 2011, Google's Android Operating System was on 130 million devices.
- In July 2011, it was reported that the Apple Retail Store is handling 24 million app downloads per day, and the Android Market is handling 17 million app downloads a day.
- As of September 2011, there were more than 800 million users on Facebook. On average, Facebook users install over 20 million apps every day. There are more than 350 million active users currently accessing Facebook through mobile devices.
- In April 2011, it was announced that more than 200 million people had signed up on Twitter, while, in September 2011, it was revealed that there were 100 million active monthly users.
- In 2010, global revenue for the virtual goods industry was over \$7 billion, according to Ted Sorum, CEO of Risty, a virtual currency platform.

### What does it take to become a CDO?

Given the complexities of their role, successful CDOs require a broad blend of experiences and competencies.

#### Experience

Digital experience, of course, is critical but different combinations of skills are emerging among Chief Digital Officers. For example:

<sup>1</sup> Top Mobile Internet Trends Presentation, February 2011

- **E-commerce and transactional expertise.** The focus here is on driving traffic, conversion and revenue. Often referred to as SVP Online, these CDOs are sought after by companies involved in e-commerce, such as e-tailers and manufacturers that move to direct sales. These CDOs require change management capabilities and the ability to manage channel conflicts.
- **Online marketing and social media expertise.** Here the emphasis is on driving brand awareness, brand activation and consumer engagement. These CDOs are sought after by consumer-branded goods and services companies and require skills relating to new personalized/ localized communications as opposed to mass communications.
- **Transformative product and technology capabilities (i.e., analog to digital).** These CDOs are sought after by traditional media companies and require change management capabilities that can impact the whole company.

More generally, CDO candidates should be familiar with web, mobile and social media—and possibly local as well. They should be able to plan and execute long-term strategy around driving customer awareness, engagement, experience and monetization. When it comes to innovation, candidates should have experience developing

new channels and business models, as well as innovative products and services. The CDO also must be tech savvy; though knowing how to code may or may not be required, the ability to manage developers and ask the right questions is a minimum requirement.

Importantly, the CDO is not only a digital guru but also a seasoned general manager. He or she should

**“ Demand for CDOs is far greater than supply. This is fueling an increasingly competitive war for talent.”**

have experience running a P&L. The role frequently is transformational so change management experience is important, either in turnaround or fast-growth situations. In addition, as many companies increasingly have global customers and employees, international experience is key. Therefore, CDOs will need to appreciate that adoption of technologies across a business’ jurisdictions will vary. In other words, one size does not fit all.

#### Competencies

As with any senior leadership position, a range of competencies is required:

- **Setting strategy.** With the digital landscape evolving so quickly, CDOs need to have excellent strategic skills, with the ability to

chart the right course and make agile alterations when needed.

- **Executing for results.** Strategic insight must be coupled with a strong execution orientation and an ability to deliver results despite the complex and fluid environment.
- **Building relationships and using influence.** In today’s climate, the culture and practices within a business can change as quickly as those in the external market. Chief Digital Officers, therefore, must be able to build relationships across all levels and functions of the organization—from the Board down to the front line—and effectively manage conflict.
- **Leadership.** CDOs must in turn be able to recruit top talent and to lead large and (sometimes) globally distributed teams.
- **Demonstrating cultural sensitivity.** This is particularly important, as those skilled in new digital tools may view the world differently from others in more traditional parts of the business.

### Where can effective CDOs be found?

There is a wide range of challenges for those recruiting Chief Digital Officers. One of the most significant issues is that demand is far greater than supply in all areas of the world. This creates retention issues among the best staff, fueling an increasingly competitive war for talent.

After two decades of the Internet, there is a reasonable cadre

of mid-level digital managers from product, technology or marketing backgrounds. However, there are relatively few senior general managers

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or people who have worked across functions or have had extensive Board experience. Many candidates have acquired their skills in small, nimble start-up type environments, making them culturally unsuitable for large, structured, matrixed corporates. Indeed, many of those who work in digital want to remain in pure-play arenas. To attract these candidates, companies must rethink how they structure responsibilities.

Perhaps not surprisingly, the greatest supply of candidates is in the United States. However, demand in this region is equally intense, such that finding the right talent in the United States remains challenging. Another issue, as many European and Asian companies note, is that technology executives from the United States often grow up in a particular silo, such as sales

or marketing. As a result, while these executives bring tremendous functional expertise, they often lack the broader leadership and influencing skills that are needed for these more senior general management positions.

For some companies, particularly those with more traditional structures and career paths, it can be a challenge to integrate digital talent who will push the boundaries but may lack the maturity needed to function effectively at Board or sub-Board levels. For CEOs, such appointments require an element of risk taking and may include implementing and explaining strategies that go far beyond the traditional business model. In many cases, CEOs will need to adapt to having a key member of the inner circle who is far younger and has a significantly different business background from the rest of the group.

On the candidate side, those looking to move into Chief Digital Officer positions may be reluctant to join established organizations, viewing them as old fashioned. Many candidates come from cutting-edge, entrepreneurial organizations where executives can have a clear and immediate impact, and candidates often desire those same attributes in their next employer. They also want compensation packages (particularly equity) highly geared to success, which may test the compensation bands of traditional companies.

Not only must organizations have an open mind to hiring candidates

who might not fit the cultural norm of the business, companies also will have to move very quickly when they find and meet talent that has potential. The current state of supply and demand almost guarantees that other opportunities will be available to talented candidates.

### **What does the future hold for the CDO?**

In many cases, the CDO will be the senior executive handling the fastest growing revenue streams within the business or will be the executive holding the keys to the company's future—placing him or her squarely in line to replace the CEO. CDOs who demonstrate their ability to manage change and transform their businesses almost certainly will lead the way in the rise of the Digital CEO.

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