

HOW BOARDS CAN HAVE MAXIMUM IMPACT ON DIGITAL STRATEGY



The digitization of global business has created a winner-take-all world where leaders and laggards alike can be upended quickly. As a result, digital capabilities play an outsized role in many of the key activities of the companies that directors oversee. Strategically, digitization enables companies to create new markets and business models, potentially disrupting entire industries. In marketing and sales, businesses can now reach customers in new ways, automate customer interactions, and aggregate a previously unimaginable volume of information to better understand—and influence—individual consumer behavior. In operations, digital technology powers everything from the supply chain to manufacturing to distribution and service. In human resources, digitally empowered employees enable nimble companies to do things faster, cheaper, and better.

A recent study from the McKinsey Global Institute found that companies with advanced digital capabilities are outperforming their competitors. These digital high performers are winning more market share, capturing a disproportionate share of gains, and in some cases transforming industries to their advantage. For example, says the study, the industries with the fastest growth in profit margin typically have the fastest growth in digital capabilities. In fact, the top-performing companies in those sectors enjoy margins that are two to four times higher than those of the lowest performers in other sectors. The gap between the digital “haves” and the “have-mores” is growing.¹ Nevertheless, even a market-leading “have-more” could be overtaken by the next round of digital innovation.

For boards, overseeing a digital strategy is particularly challenging for at least three reasons. First, the word *digital* covers such a diffuse set of technologies and activities, permeates so many disparate organizational functions, and offers such a wide range of opportunities and dangers that it affords no single, obvious point of entry for board oversight. Second, meticulous consideration of each of those facets of digitization could consume all of the board’s time. Third, even if such a comprehensive

¹ See McKinsey Global Institute, “Digital America: A tale of the haves and have-mores,” December 2015, mckinsey.com.

consideration of digital were possible, it could take directors well over the line between overseeing the company and managing it.

Unsurprisingly, this digital dynamic has left many directors at a loss as to how they can help ensure that the company is staying ahead of the digital curve. But amid this daunting complexity there is one point that offers the greatest leverage for boards: culture. Though the board cannot (and should not) micromanage digital strategy, technologies, or activities, it can learn whether the company's culture is as agile, responsive, and open to change as it needs to be to survive and thrive in a fast-moving, digitized world. The board should therefore consider a cultural assessment to determine whether the organization is prepared to change, or change quickly enough, to seize the opportunities or avoid the threats that digital presents.

While an agile culture is a boon for any business, it is particularly vital for companies seeking to reap the full benefits of digitization. What does such a culture look like? Fundamentally, it's a place where people are optimistic in the face of challenge, regularly seek to improve even when they are successful, and embrace the opportunities for change and reinvention that digital brings. Its leading characteristics drive the organization in three critical areas: mobilization, performance, and transformation.

Mobilization

A customer-first orientation, energizing leadership, and clarity of purpose mobilize the entire organization.

Customer-first organizations are not only highly responsive to changing customer demands but are also able to anticipate those demands before the customer does. Teams across the organization, including those far removed from the front lines, make customer-focused decisions. Leaders who *are* on the front lines have deep and lasting relationships with customers, innovating in partnership with them to deliver more value for both parties.

Energizing leadership means empowerment at all levels of the organization, inspiring individual initiative and proactive team effort. Leaders, especially senior executives, provide strong role models who spur others to put forth their best efforts. Stress and burnout are rare, and no one hesitates to step up when called upon—in fact, they step up before they're called upon.

Clarity of purpose aligns everyone around a clear vision and shared objectives. There are no competing agendas and confusing priorities. Strategy, instead of being so complex as to make its implementation almost impossible, is incisive, as is the messaging around it.

Performance

Simplicity, ownership, and winning capabilities help the company to perform at the highest levels of excellence.

Simplicity, which turns clarity of purpose into action, includes lean processes, streamlined operations, and little bureaucracy. Teams practice efficient project governance and employ highly targeted metrics. Decision processes are straightforward and transparent. Leaders spend less time in meetings and more time getting things done.

Ownership means clear accountability and a willingness to take responsibility. There are no overlapping accountabilities that impede action, no blaming of others or playing the victim when things go wrong. Leaders reward impact, not effort, promoting delivery on commitments and maintaining a meritocracy.

Winning capabilities, a function of talent and talent-management practices, provide continuously renewable advantages over the competition. It's not a matter of simply assembling a checklist of skill sets but of attracting, developing, and retaining a diverse group of people whose ability to learn and grow—and to contribute new ideas—prepares the organization for any competitive eventuality. Leaders are willing to make tough people decisions; the organization maintains a strong talent pipeline; genuine talent rises to the top; and the company becomes a magnet for extraordinarily talented people.

Transformation

Innovation, challenge, and collaboration enable the company to transform itself and the terms of competition.

Innovation as a mind-set, not simply a process, spurs creativity at every level. Curious and courageous leaders exhibit a willingness to experiment, to learn from failure, and to look for new ways to disrupt. Teams seek ideas from multiple sources, internally and externally, and often in places that might seem far removed from the company's core business. And the organization as a whole becomes a vast laboratory for idea generation and experimentation, with a marked ability to fail—and learn—fast.

Challenge is a cultural practice that invites frank debate and generates high-quality ideas. Leaders stretch the thinking of others and provide candid feedback. Teams embrace paradox, avoid groupthink and arrogance, and are able to rupture and repair relationships. The organization maintains the highest standards of performance and is quick to act in the face of under-performance.

Collaboration provides the antidote to the selfish practices that undermine transformation: distrust, competing agendas, information hoarding, and turf wars. Leaders trust others and selflessly contribute to their success. Teams operate transparently, take collective responsibility for their work, and work across organizational and intellectual boundaries. The organization works as one, with integrated processes, the free circulation of information, and the ability to cross-pollinate ideas and bring them rapidly to fruition.

No company, of course, is likely to be consistently performing at the highest level along every cultural dimension of agility. But whatever the level, the board should be aware of it. If performance on agility is generally high—that is, if the company is *extremely* agile—then

the board can be reasonably confident that the company can not only hold its own in today's digital arena but also continue to do so in the future, no matter what surprises that future holds. If performance on the cultural dimensions of agility appears to be spotty, management will likely need little prodding to improve it. If agility is found to be generally poor, indicating an organization that adapts slowly to market changes, suffers from "analysis paralysis," and lacks a sense of urgency, the board should urge management to undertake an extensive reshaping of the culture.

In many cases, getting bested by nimble and digitally savvy competitors provides a clear indication that something is wrong, tempting companies to conclude that the problem is one of technology. But the technology itself is only one part of the equation. Before embarking on transformative strategic changes tied to digital technologies, companies should take steps to create more agile cultures. Companies and the boards that oversee them will then be better prepared to approach the changing digital landscape not as a disruptive force but as a path to innovation and improved ability to spot and seize game-changing digital opportunities. ■

This article was originally published in *Directors & Boards* magazine. For more, see directorsandboards.com.

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