

HEIDRICK & STRUGGLES

ASIA PACIFIC AND MIDDLE EAST REGION



Navigating digital transformation

An executive's guide to the factors that make a digital transformation successful—and the common pitfalls to avoid.

As mobile technology, constant connectivity, and data analytics become increasingly embedded in the fabric of daily life, few businesses have been left untouched. Digital disruption—the profound changes that result from the application of new technology to goods or services—is not limited to “digital natives” such as Google or Uber. Traditional industries from manufacturing to banking are contending with rising customer demand for consistent engagement, hyperconnectivity, on-demand delivery, and product or service innovation—and yet this growing appetite for an improved customer experience is just one among many factors driving digital innovation.¹

Effective responses require investment not only in technology, but also in people. The chief digital officer (CDO)—the executive responsible for overseeing an organization’s digital strategy and spearheading business transformation through the application of technology—is an increasingly prominent and strategic role. By some estimates, the number of CDOs worldwide is doubling each year,² and prominent corporate names from Nike to Morgan Stanley have recently created CDO roles.

Regardless of the scale of a company’s technology investments, or the talent its CDO can bring to bear, digital transformation remains a fraught and difficult process, demanding fundamental changes to the ways that organizations approach, formulate, and deliver their products or services. This article draws on a combination of our experience and conversations with senior Asian and European digital executives who have led digital transformations within their organizations; it seeks to identify the factors that make a digital transformation successful and the common pitfalls to avoid. By developing a better understanding of the pressures created by digital disruption and innovation, companies can better capitalize on the opportunities presented.

Mapping a transformation strategy

Newly minted CDOs rarely arrive at their new company with a detailed road map. Being able to understand the expectations of the entire company,

¹ In a 2015 survey by the Global Center for Digital Business Transformation, respondents predicted, on average, 4 of the top 10 incumbents by market share in each of 12 key sectors—including utilities, retail, and financial services—would be unseated by digital disruption in the next five years. See Jeff Loucks, James Macauley, Andy Noronha, and Michael Wade, *Digital Vortex: How Today’s Market Leaders Can Beat Disruptive Competitors at Their Own Game*, DBT Center Press, 2016.

² See CDO Club, “First look: Chief digital officer and chief data officer talent map 2016,” January 23, 2016, cdoclub.com.

and its customers, is a vital first step to understanding the journey ahead. Most notably, CDOs should view themselves as agents of change and must be able to communicate their vision and objectives to all those touched by that change.

Understand disruptive pressures

At its root, digital transformation is about preserving or enhancing an organization's competitiveness. In the words of Alan Tien, Visa's then-vice president of innovation and strategic partnerships for the Asia Pacific region: "The message is either adapt or be displaced by new players."

Louise Daley, AccorHotels' executive vice president and CFO for the Asia Pacific region, recalls the transformation that was necessary at Accor Plus, the group's subscription loyalty program, due to the revolution in price transparency stemming from customers' increased access to information about hotel and restaurant rates. When she took over as CEO of Accor Plus, Daley also became the de facto CDO, driving digital transformation in the unit as the group was undertaking a broader €230 million transition. Change was an obvious strategic necessity: "What struck me [at Accor Plus] wasn't the lack of digital capability; it was that the business model was failing," Daley says. "That led to a review of the business to find out how to survive and grow, and to determine what we needed to do."

The scope and challenges associated with transformation depend to a large extent on the industry, and the company in question—more "traditional" industries often have more ground to cover. In insurance, for example, "human intermediaries still play an enormously important role in distribution, transactions, and claims," notes Andrew Brem, CDO of the insurance multinational Aviva. "That's simply not the way consumers are living the rest of their lives. So when I think about transformation, it's not about crazy, wacky, futuristic

ideas. Actually it's about recognizing that our industry hasn't moved with the times, and about enabling consumers to interact with Aviva digitally."

"Technology is still not well integrated into the [fast-food] business," says Sakechai Choomuenwai, chief digital and restaurant excellence officer of fast-food chain KFC, Yum Restaurants International, in Thailand. "With the consumerization of tech, consumers expect more from the brand"—for example, ensuring customers can place orders and provide feedback via mobile devices—"therefore the whole industry is catching up to make sure we can meet customer demand and expectations."

Transformations are complicated by the fact that the pace of technological change is accelerating. In payments, says Tien, "the next 10 years will bring more changes than we've seen over the past 50 years." Online and contactless payments may still seem relatively new and innovative to many yet they still involve passwords and cards; Visa is already moving on to biometrics and tokens that facilitate payments across devices.

South Korea's dominant telecom provider, KT, has rapidly expanded into new services such as cloud computing and Internet protocol television as part of its ongoing digital transformation. "Even telecom firms are confronting a wall blocking their growth; they can't grow revenue from traditional services," says Dr. Soo-Jung Shin, KT's chief information officer (CIO) and senior vice president in charge of digital strategy. "The digital environment is an important factor in new business development."

Recognize the breadth of the CDO's role

Although it has created new revenue streams, KT's digital pivot has not been without difficulties. Shin joined the company in the wake of a series of high-profile hacking and security incidents that had undermined customer trust.

It is in addressing issues such as these that CDOs must step up to become change agents, not merely technologists. CDOs often have technology backgrounds, and some organizations tack CDO-style responsibilities onto the CIO role, or draw their CDOs from the ranks of their IT department. However, as a leading agent of changes that cut across multiple critical functions, from human resources to customer service, the CDO must also have a solid footing in the broader business environment, and the ability to communicate with all its constituents.

Shin credits his time as CEO of the information security provider SK Infosec as “very helpful” in assessing the state of affairs at KT, developing a digital blueprint, and rebuilding customer loyalty. “IT leaders tend to use technical terms for communication with non-IT leaders in the company. . . . It just isolates IT from the other business divisions,” he says. “My professional experience . . . helped me communicate with other business teams.”

Since many digital initiatives target customer interaction, consumer-facing experience can also prove valuable in the CDO role. “I come from a highly consumer-focused background, and part of the transformation is about making us a more consumer-focused business,” says Aviva’s Brem.

Although the CDO’s job necessitates a certain amount of familiarity with his or her company, some executives believe it can be helpful to come into the role from outside. A new hire can view long-entrenched practices or problems in a different light, and may feel the pressure to push through much-needed changes more keenly.

“Because I came from outside, I was less focused on relationships than tasks and goals,” notes Shin. “I think [executives] from outside, like me, should work to achieve notable goals within their first year.”

Executing the transformation

Once the objectives are defined, a CDO must take a broad-based approach to a transformation project. This includes understanding which parts are a priority or easiest to achieve, what the potential hindrances are and how they can be resolved, and how best to utilize often limited resources.

Draw a clear road map

As with any far-reaching business initiative, a clear road map is crucial to a company’s successful digital evolution. In Shin’s case, when he was assigned to tackle security at KT, he documented the “whole picture of the transformation to improve information security,” addressing everything from hacking threats to vulnerabilities at business partners or with employees’ PCs—and drew up a task list for each. These lists were shared with relevant divisions, and progress reports were delivered to senior management teams.

In addition, a solid governance structure is often required—particularly in industries like financial services where regulatory and data security concerns mean, in effect, less freedom to experiment or less room for error.

“One of the things [about transformation] that is very different from the banking perspective is that you have to get it right the first time,” says Simon Thompson, global head of digital commerce at HSBC. “You’re dealing with things that are incredibly important, where trust is an absolute must, so you have to make sure everything is done perfectly in terms of ethics and execution. That requires an extra layer of complexity, governance, and focus.”

While the digital leaders we spoke to were unanimous about the need for transformation programs to

be ambitious, tackling too many initiatives at once, or spreading resources too thinly, can be risky. In the early stages of a journey, notching up tangible achievements in one or two areas is often more conducive to building support for future change. “We started to catch the big fish first,” Shin recalls. “Providing the top management team with visibility on our progress and the amount of work involved was very effective at instilling the confidence that we could complete the change successfully.”

Aim for unwavering management support

Even if the CDO is a consummate diplomat, it is an organization’s senior leadership that sets the tone. “[Visa’s] paradigm shift, from being a closed garden to an open network, toward digital literacy for all employees, comes all the way from the top,” observes Tien. AccorHotels’ Daley agrees: “I’d say the most crucial element [in the transformation] was being able to influence at a senior level, first to get them to understand and second to put the dollars behind it.”

KT’s Shin says that support from the CEO is especially important because digital transformation projects frequently come in for criticism, especially when people have difficulty adjusting to new technologies or roles, or when transitions don’t proceed as smoothly as anticipated. “It’s usually hard [for CDOs] to make changes to front-office systems, because they’re scared of blame,” he explains. “Therefore, strong sponsorship from the CEO is important, and the [CDO] should have the endurance to hear all the blame and still lead the charge.”

HSBC’s Thompson says that simply obtaining management buy-in for a transformation project may not be enough. “Buy-in is intellectual acceptance, but unwavering support is acknowledging there will be difficulties along the way yet they’ll still always be with you,” he notes. “If you pick up the phone and want to speak to the CEO, do they put you through? If you want to take one hour of a board meeting,

do they let you? You know whether you have unwavering support based on people’s behavior, and the access you have to them.”

Aviva’s Brem agrees: “Incredible CEO sponsorship is the difference between ‘it’s important’ and ‘it’s absolutely critical.’ Getting the actual financial resources and backing is very important as well.”

This type of loyalty is best cultivated through deep-rooted senior management involvement in the transformation process. Establishing a governance framework that incorporates management representation from different business divisions is one means to achieve this, and also encourages the kind of collaboration necessary for a companywide initiative to thrive. Increasingly, [boards play an important role](#) in ensuring alignment around the organization’s digital objectives.³

In KT’s case, this took the shape of an executive committee on transformation that included senior managers from across the organization.

“Governance and policy have to be in place for the transformation to be effective,” notes Shin. “This kind of companywide action or transformation committee is very helpful.”

Implicit in the involvement of various business heads is the recognition that the IT team must to some extent “let go” of digital transformation projects, even if they involve large technology investments. “The IT organization at KT used to lead digital transformation and develop related new business opportunities,” Shin explains. “This approach didn’t work; we lost the trust of the business. So instead of leading the change, we now propose changes proactively as an enabler, and support the businesses in leading it with our knowledge and expertise.”

³ See David Boehmer and Jenni Hibbert, “Inside the digital boardroom,” Heidrick & Struggles, October 13, 2016, [heidrick.com](#).

Build a digital culture across the organization

The need to cultivate internal support springs from the reality that digital transformation is fundamentally a people-driven process and not a technology-driven one. This is why companies such as Visa have gone to great lengths to prompt, in Tien's words, internal "philosophical changes" prior to and throughout their transformation programs.

The CDO must serve as the driving force and main change agent throughout this journey, "educating and helping people understand why we need to transform today in order for us to succeed in future," says KFC's Choomuenwai.

But this is not necessarily a message people want to hear, especially when it threatens or displaces long-standing roles or internal business practices. The CDO must therefore walk the difficult line of overturning old models without alienating large swaths of the business in the process.

"It takes a lot of patience and explaining internally in a way that people can understand rather than talking about it in technical terms," AccorHotels' Daley says. "It is a bit daunting. A lot of the vocabulary used is not in people's everyday vocabulary, so you get pushback."

HSBC's Thompson agrees: "You have to make sure that you as an individual do not become the reason not to change." He adds: "People might not like what you say, but they should always like who you are, your intention, and how you say it. The issue with digital [transformation] is that no one department or group can drive the change; it has to be a collective purpose."

Just as successful digital transformation must engage the leadership, it must also involve frontline and other staff, who will bear the brunt of the changes. A new digital offering is unlikely to gain traction with

an organization's customers, for example, if it's still largely unfamiliar to its sales representatives. Similarly, employees must be prepared to monitor and engage with new forums for customer interaction, including social media.

This need to understand both the benefits and potential pitfalls of new channels of customer engagement informs Visa's emphasis on ensuring its employees are digitally literate, as well as KT's focus on digital transformation-related training programs. Shin personally led change-management seminars for over 1,000 employees, and also introduced education on the risks posed by hackers and how the company could address them.

In the view of HSBC's Thompson, educating the front line should be a two-way process—since customer-facing employees inevitably have much to teach the CDO. "My experience is that [frontline staff] understand the need to change more than anybody. Every day, they are actually speaking to customers about their needs, and they're the people who have to deal with the frustrations customers may have around getting things done. The front line has changed from an audience you need to persuade to an audience you need to listen to."

Seek input beyond the usual channels

Another trait of effective digital transformation projects is that they successfully extend well beyond a company's core competencies—and comfort zones. Collaboration is the name of the game. Centuries-old bricks and mortar retailers are having to grasp e-commerce engines, while manufacturers are being called on to analyze data from their supply chains. This means CDOs should be willing to seek and even embrace outside expertise, partnerships, and opportunities to cooperate.

Visa, for example, has opened its payments network to third-party application developers, and teamed up with financial technology community Next Money

(formerly Next Bank) to launch competitions for fintech executives. “Senior leadership in Visa has changed our vision to be much more proactive, to ‘lean into’ conversations with nonfinancial institutions, because the fintech world is no longer black and white, friend or enemy,” says Tien.

At the same time, none of these efforts should entail the company abandoning long-standing principles or core businesses. Rather than jettisoning everything and starting over from scratch, savvy CDOs seek to build on the capabilities and knowledge that are already housed within the organization. And instead of trying desperately to become digital natives at any cost, companies, and their CDOs, should strive to balance the need to preserve and enhance the organization’s traditional strengths with the pursuit of new digital possibilities.

“My biggest words of warning: there is not one approach; don’t try to change any company into another one,” says HSBC’s Thompson. “There’s only one Google, only one Apple, and that’s absolutely OK. Any change has to be the right one for your company or category.”

Evaluating success

The primary objective of a digital transformation isn’t to create the ultimate digital platform or resource, but to use digitization to complement and enhance business performance. A CDO should see the value in even incremental improvement, and recognize that a company’s journey is never over—every step forward in a project or advancement in technology can bring an organization closer to its ideal digital self.

Align with business objectives

Careful planning and exemplary leadership can lead to tangible digital wins, but defining this success is another matter. In the view of many CDOs, alignment

with the business is one of the main lenses through which the performance of a transformation initiative must be viewed.

“The CDO should define success in business metrics rather than digital metrics,” notes Jaspreet Bindra, senior vice president of digital innovation and e-commerce at Indian conglomerate Mahindra & Mahindra. “It’s not about getting 600,000 Facebook likes; success is helping to surpass previous margins by, say, 7%. The moment you align to the business, you start speaking business language.”

Similarly, HSBC is framing its transformation targets in business terms—such as increasing sales through its digital platform by 75% from 2014 to 2017, and keeping its cost base the same over the period partly through the realization of digital efficiencies.

Aviva has taken the step of setting up a separate digital business that is in effect responsible for selling directly to the consumer and simplifying their engagement with the company. “That was controversial, because there were some activities that were previously done by other parts of the business, but we felt we had to go that far,” says Brem. “Transforming through a P&L is often more powerful than transforming through a function.”

Daley of AccorHotels sounds a note of caution about the need to manage expectations. Management might equate “digital transformation” with “exponential growth,” but the reality may be more prosaic. “We hear in marketing about the explosive growth of online channels, but less than 4–5% of businesses are getting that explosive growth,” she warns. “You have to be reasonable about expectations. . . . I’ve found that in digital transformation everything takes longer than you thought, it’s a lot more expensive than you imagined, and you won’t be able to [plan for] all of it.”

A common theme for CDOs, then—much as in the digital economy—is collaboration: they must serve as a bridge between technology and other segments of the business and help their organizations identify and seize the business opportunities technological developments bring. This by necessity involves some adjustment, and even a certain level of discomfort, so the CDO also has to be prepared to act as an ambassador, championing the need for change with senior management and enduring (though not ignoring) occasional rumblings of criticism.

The journey never ends

Even as achievements are notched up, the transformation process is never complete, and the CDO's role is constantly evolving. Mahindra & Mahindra's Bindra sees an increasing convergence between the CDO and chief marketing officer (CMO) functions, since a large amount of digital disruption is concentrated in the marketing space. Grooming the future digital-talent pipeline is also becoming a greater priority for many CDOs, since "there is massive demand and very low supply," he adds.

"Bringing in the right set of talent is critical," says Aviva's Brem. "I've brought in a set of people almost exclusively from outside the industry and, in a way, that's one of my biggest achievements so far."

The good news is that most of the new entrants to companies have grown up "speaking digital," and are already well accustomed to digital interactions and transactions—meaning CDOs can likely expect less resistance, and more support for transformations, in future. "They are fully immersed in this new way of working," says Thompson of HSBC. "I think the next generation of talent coming into organizations will all be CDOs in a sense, because they won't understand why businesses would operate in any other way." ■

About the authors

Vikram Chhachhi (vchhachhi@heidrick.com) is a principal in Heidrick & Struggles' Mumbai office and a member of the Consumer Markets Practice.

Karen Fifer (kfifer@heidrick.com) is the regional managing partner of the Consumer Markets Practice for Asia Pacific and the Middle East; she is based in the Hong Kong office.

Mark Sungrae Kim (mkim@heidrick.com) is partner-in-charge of the Seoul office and a member of the Consumer Markets Practice and the Healthcare and Life Sciences Practice.

YH Yeonho Kim (yhkim@heidrick.com) is a principal in the Seoul office and a member of the Global Technology and Services Practice.

Victoria Stead (vstead@heidrick.com) is a partner in the Dubai office and a member of the Consumer Markets Practice.

Jeffrey Greg Stryker (jstryker@heidrick.com) is partner-in-charge of the Bangkok office and a member of the Industrial Practice.

Heidrick & Struggles' Partners-in-Charge of Asia Pacific and the Middle East

Steve Mullinjer

Regional Leader

smullinjer@heidrick.com

Chris Bates

Taipei

cbates@heidrick.com

Arun Das Mahapatra

Mumbai

adasmahapatra@heidrick.com

Guy Farrow

Sydney

gfarrow@heidrick.com

George Huang

Beijing

ghuang@heidrick.com

Aya Inuma

Tokyo

aiinuma@heidrick.com

Bill Kett

Melbourne

bkett@heidrick.com

Mark Sungrae Kim

Seoul

mkim@heidrick.com

Stephen McAlinden

Hong Kong

smcalinden@heidrick.com

Charles Moore

Singapore

cmoore@heidrick.com

Michael Morcos

Dubai

mimorcos@heidrick.com

Venkat Shastry

Bangalore

vshastry@heidrick.com

Puneet Pratap Singh

New Delhi

ppsingh@heidrick.com

Jeffrey Greg Stryker

Bangkok

jstryker@heidrick.com

Linda Zhang

Shanghai

lzhang@heidrick.com

WE HELP OUR CLIENTS CHANGE THE WORLD,
ONE LEADERSHIP TEAM AT A TIME®

Copyright © 2016 Heidrick & Struggles International, Inc.

All rights reserved. Reproduction without permission is prohibited.

Trademarks and logos are copyrights of their respective owners.

Cover image: © fandijki/iStock