

Digital Transformation and Leadership Competencies



You only see it when you understand it.

Lewis Carroll once quipped that if you do not know where you are going, any road will get you there. Similarly, if you cannot define digital, any transformation will take you there.

Like a case of bad acne, “digital” sprouts a plethora of truisms. Too many offerings, channels, messages. Creative destruction and hyper-competition. Old barriers to competition disappear. Uncertainty and unpredictability multiply. The end of sustainable competitive advantage. Almost anything can be copied quickly. Success is harder to sustain. Everything becomes exponential: organisations, growth, technology.

But one truism has been shattered. Size does not matter anymore. The average lifetime of companies listed on the S&P 500 keeps falling: from 70 years in the 1920s, to 35 years in the 1980s to 15 years today.

Like size, safe is apocryphal: safe is the new risky.

The business press and consulting industry picked up on the trend. Take the founder of former Siebel Systems, now CEO at the AI Company C3.ai. He titled his book on Digital Transformation “Survive and Thrive in an era of mass extinction.”

Loss aversion is a stronger motivator than gain, and “digital” is the PR tool par excellence to fan disruption anxiety. The terminus, as always, is a receptive market for business advice. Buy the advice, and everything will be Gucci: no mass-extinction for you.

But how to distinguish good advice from bad?

A PR cabal is inversely proportional to explanatory clarity. Add-in some monkey-see-monkey-do copying of “digital” best practices and digital transformation degrades quickly into digital theatre. The folks at [Forrester](#) agree: *Digital transformation has come to mean so many things it’s almost meaningless.*

My advice: when someone brings up “Digital” to *sell* you something, ask them what they mean by “digital”. You will be surprised how the answer to that simple question can reveal an emperor without clothes.

Here, I will define Digital Transformation in a single sentence. But first let's unpack digital into its main constituents.

Data

The obvious is a good place to start. "Digital" is associated with a range of emerging technologies such as predictive analytics, machine learning, artificial intelligence, natural language processing, IoT, blockchain, robotic process automation and so on. Yet it is a deceptive half-truth to assume that the deployment of such technology drives digital transformation. Technology is a core component, and the only tangible at that. More importantly, technology will capture, generate and process data, the ones and zeros that are the physical constituents of digital.

The amount of data grows at a rate so insane it becomes incomprehensible to grasp intuitively.

In 2018 approximately 2.5 quintillion bytes, or 2.5 Mio terabytes of data were created *daily*, a pace accelerating with the growth of IoT. Those immense, gargantuan amounts of data, combined with Moore's law, sprout three possibilities never encountered before in the history of technology:

- Accurate prediction by machines.
- Cognitive automation.
- The hacking of humans through their feelings and opinions.

These three possibilities allow for the substitution of workers, the extinction of professions, and the manipulation of elections. These applications made the historian Yuval Noah Hariri proclaim that economic and political power today arises from the ownership of data, just as it arose from the possession of land in medieval times, or the means of production in the industrial era.

Innovation

Yet "digital" goes beyond data. Digital also has a cultural or behavioural component. *It articulates the capacity of an organisation to innovate*, more specifically, how to leverage technology and re-imagine business processes within the business as a whole. And the goal of innovation is to create customer value. To paraphrase Charles Darwin: it is not the strongest that survives, nor the most intelligent, but rather that which is most adaptable to change. Innovation goes beyond adaptability: it turns the organisation into an agent of change.

Innovation is about doing things one doesn't fully understand, starting from a value hypothesis, which is then tested with the goal to *learn* and *improve*. Innovation puts the "right in theory, wrong in reality" on top of its head. Innovation is not about novelty, but all about value creation. Innovation combines creativity with the capability to execute, and tests ideas or leap-of-faith hypotheses against reality.

Innovation is tricky and counterintuitive because its underlying fundamental law is unpredictability. Then how does one manage an unpredictable process? When introduced to the old industrial "command and control" management paradigm, innovation causes organ rejection. Innovation goes counter to the process and task adherence culture of traditional management: it cannot be mandated, planned or forecasted. Innovation magic only happens *when the circumstances are right*. And those circumstances are determined by organisational culture.

While so impactful, culture is invisible and only its consequences can be observed. As such it is the organisational equivalent of the human unconscious. Whereas the individual unconscious determines personal behaviour, culture rules the behaviour of an organisation. And the values of an organisation will determine its culture. What are the values underlying the culture of your organisation?

Reed Hastings, CEO of Netflix, would distinguish the real values of a business from the “nice-to-have” values that adorn many office walls by how decisions are made on who gets hired, promoted or fired. According to Ben Horowitz, co-founder of the renowned VC firm Andreessen Horowitz, culture at its core is how a company makes decisions. It is the set of assumptions employees use to resolve everyday problems: should I stay at the Red Roof Inn, or the Four Seasons? Should we discuss the colour of this product for five minutes or thirty hours? Is winning more important than ethics? It’s all about how colleagues behave when no one is looking. Or in the words of Horowitz, what you do is who you are.

All CIOs and CTOs who drove a successful digital transformation confirm that *the problem with a transformation is never technology, but culture.*

Digital culture fosters autonomy, the ability to experiment, validated learning, evidence-based (or data-driven) decision making, and a customer-centric (not tech-centric) focus. Should business leadership decide on “digital transformation”, then they must create and maintain an innovation culture *first*, so processes can be re-imagined in a digital architecture and eco-system, to be subsequently embedded in technology.

Innovation is the intangible, or cultural constituent of digital. It is the medium through which the transformation flows.

Together, data and innovation fuel the digital transformation engine.

We distinguish three types of innovation, each of which *monetise* data:

- Data substitutes for assets and time. *Efficiency innovation* is the increase of quality output with less resources. The automation of manufacturing lines and administrative work are classic examples.
- “To satisfy the customer,” advised Drucker, “is the mission and purpose of every business.” *Sustaining innovation* uses data to drive customer experience or CX. CX starts with the customer and works backwards to processes and technology. This happens through product or service improvement, feature additions, performance increases, A/B testing, gamification, and so on. Customer experience is the only moat that protects against commodification.
- *Disruptive innovation* uses data to diversify a business away from its core, through the creation of new business models and go-to-market models.

Genuine digital transformation engages these three forms of innovation simultaneously, and anchors them into the practice of *continuous improvement*.

Vision

Transformation requires a purpose, or a clear and unambiguous *direction*. Vision articulates what an organisation aspires to be. Vision sets direction. The most effective digital transformations were the result of a bold vision everyone in the organisation could understand and align with. Therefore, vision

transcends and integrates strategy. Strategy can change while the vision remains intact. For instance, a strategy change aimed at attracting more customers, called a *pivot* in lean start-up methodology, is often necessary during digital transformation.

A famous pivot was Netflix changing its business model from sending DVDs by mail to streaming content over the internet. Airbnb started out as a business to provide housing solutions around conferences, found out it was not sustainable, and then opened up to all travellers seeking an authentic local experience. Twitter began as a podcasting platform, YouTube started as a video dating service, and Instagram as a check-in service. They all had to pivot from their initial value hypothesis to one that attracted more customers. But their vision remained the same.

Vision is the philosophical constituent of digital transformation. Without vision, data and innovation have no direction. An effective vision will be simple, concise, yet galvanising. Everyone across the organisation can effortlessly understand it. If not, it won't be a vision but confusing techno-speak or PR babble.

Data. Innovation. Vision. These are the three intertwined constituents of digital transformation.

Then what is digital transformation?

“Digital transformation is the execution of a vision to monetise data through continuous innovation.”

From this definition we then derive the leadership competencies that drive digital transformation.

Technologist

The increasing value of data requires IT to take on a new identity. In many traditional organisations CIOs have a reporting line to the CFO, because IT is conceived as a cost centre, and focuses on the maintenance and upkeep of infrastructure. In digital organisations IT will be an integral part of the value chain to the customer. A *sine qua non* for Digital Leadership is an understanding of how data allows for the re-imagining and re-joining of business processes, automating or executing them through algorithms, and linking them unambiguously to customer impact and financial KPIs. How does IT create customer value in your organisation? How do you measure it?

Entrepreneurship

Innovation goes hand-in-hand with entrepreneurship. Entrepreneurs see solutions where others see problems. They have imagination and curiosity. They default to yes, explore what is possible, conduct low-risk experiments to test “leap-of-faith” assumptions that aim to create value, pursue validated learning, and then allow the product to scale with minimum waste. How did you innovate? What is your experience with design thinking? What was the impact on the business?

Strategist

Vision is derived from insight into future opportunities and risks and is articulated through strategy into organisational direction and capacity building. A visionary conveys enthusiasm about the future by nurturing a shared sense of purpose across the organisation. Strategy then maps the action items required to achieve the vision. A future is imagined, and a multi-layered capability maturity model of the organisation is taken into consideration. A transformation story board is built, with all the elements and components in place. What transformation strategy did you propose? Did you ever need to pivot, and how did you do it?

Change Management

Whereas entrepreneurship explores possibilities of value creation, change management grows the validated result of that exploration into economies of scale. Where an innovator imagines or re-imagines, change management scales the MVPs. The change manager aims to create a culture that fosters innovation and then improves and builds product at scale. How did you change the culture of the business to allow for scale? How did you implement agile in the business-as-a-whole? How did this improve results?

Servant Leadership

All of the above competencies are rooted into servant leadership. Servant leaders do not think less of themselves; *they think of themselves less*. When Toyota introduced lean methodology, it envisioned a new role for managers. For the first time managers were expected to *help* their teams reach their goals, rather than control adherence to processes, hand out incentives – or worse – punishments. Servant leaders are the source of a generative culture that builds trust. That trust allows teams to work autonomously, learn and develop themselves. How would you describe your leadership style and its impact on the culture you instilled in your teams? How did you do it?

These competencies are not a collection of discrete standardised “plug-in” components. They overlap and their whole will always be greater than the sum of the parts. Furthermore, the size, condition, and the industry sector of a business will balance the composition of this transformation leadership competency model.



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