

Exponential Leadership in a Digital World



September 2017

THE FUTURE IS HERE

Over two decades ago, we were introduced to the internet and the World Wide Web – and the world has never been the same since. Anyone past the emerging adult stage has witnessed the most radical transformation in how people interact in perhaps a century. We are all living in a Digital World. A world where technologies (think laptops, Siri, Alexa, iPhone, iPad, Facebook and LinkedIn, the Internet of Things, and artificial intelligence, just to name a few) fully, and some might argue exclusively, enable how people and machines connect and interact, and provide access to information, ideas – and to each other – on a 24/7 basis. Technology is now at the center of our lives.

Organizations have simultaneously experienced a mind-numbing evolution of just about every aspect of the environment in which they operate. The Digital World has

permanently changed how work gets done. There is rarely a conversation we have with clients during which the topic of digital transformation doesn't come up; for some time now, we've seen it as the top trend for organizations to pay attention to in 2017 – and beyond.

In the context of what we at The Clarion Group think of as any organization's operating model – the core set of operating dimensions that must align for an organization to create sustainable value – this digital tsunami has redefined the norms for developing and implementing strategy, establishing a highly productive culture, developing effective leadership, and creating dynamic organizing structures.





Organizations large and small, across sectors and industries, are being challenged to change their basic assumptions and ways of thinking about how to operate. Organizations are experiencing a fundamental shift in how work gets done, well beyond simply re-engineering or automating individual processes. We're talking about a complete paradigm shift that requires a radically different leadership mindset along with new performance mandates. Leaders today must develop a full understanding of the scope of change required and chart and navigate smart paths forward to ensure continuous adaptation.



connections with customers, suppliers, intermediaries, partners, competitors, regulators, funders/donors/investors, and other key stakeholders (what many refer to as the "organizational ecosystem")

- Potential changes leaders anticipate in internal organizational structures and ways of working to align more effectively with an increasingly technology-driven, networked world
- The impact of digital transformation on leadership demands and capabilities today and anticipated in the future
- The role organizational culture plays in both enabling and impeding transformation and in particular, the frequent leadership mandate to lead culture change
- The dual leadership challenge of dramatically accelerating the transformation of historic industrial business models into ones that are more customer-experience focused and agile while simultaneously building new, digital, platform-based businesses

As advisors to senior leaders in all types of organizations, and in preparation to launch our Exponential Leadership in a Digital World series, we wanted to dig deeper into just what our clients are experiencing in the context of operating model changes – and what is keeping them up at night – as they lead their organizations through what, for many, is unprecedented organizational transformation.

Over the past several months we have talked in depth with many clients across different sectors and industries, exploring:

- How organizations are evolving given their constellation of relationships and



2016 Year-End Reflections from The Clarion Group

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We are grateful to the senior leaders who have provided insightful and often thought-provoking perspectives and pleased to share with you a summary of what we have learned along with our conclusions and a few of our own hypotheses. In future issues of this series, we will take a closer look at each component of the operating model – organizing structures, strategy, culture and leadership – with the goal of bringing greater clarity to leaders around how to become exponential leaders in a Digital World.

“An exponential leader sees and has the ability to create significant organizational value by integrating their historic – successful – business model with an advanced digital platform.”

Jon Wheeler, Partner



THE DIGITAL WORLD: A NEW LEXICON

DIGITAL

Making use of computers or computerized technologies (hardware and software) to access information

TSUNAMI

An unusually large sea wave

DIGITAL TSUNAMI

The rapid expansion of advanced digital technologies producing an unusually large impact on our environment

INDUSTRIAL ORGANIZATION

A hierarchical, function-based organization whose purpose is to deliver products and services efficiently

DIGITAL ORGANIZATION

One that uses digital technology as a differentiating competitive advantage to scale the delivery of products, services and personalized customer experiences

CREATIVE DESTRUCTION

A process through which something new brings about the demise of whatever existed before it

PLATFORM

A business model that creates value by facilitating exchanges between two or more independent groups, usually consumers and producers; generally defined by modular components and a low cost tech infrastructure

CULTURE

An organization's identity – its shared values, assumptions and beliefs, and how that identity shows up in the organization every day, i.e., its behaviors, norms and rituals in how work gets done and decisions get made



“The future has arrived...”



Regardless of industry, sector or organization size, every leader we spoke to is keenly aware that the environment in which their organization operates has morphed so significantly that the change required is nothing less than transformational. “Creative destruction” is no longer just a consultancy buzzword – it is non-negotiable. Disruption is simply hitting too close to be ignored and the impacts are being felt all the way through to the structural core of the organization, challenging every component of the operating model and for many, bringing into question their organization’s fundamental mission. Consider Amazon. Just over 20 years ago, Amazon debuted as an alternative channel for people to buy books. Amazon since has completely redefined itself as captured in its current mission/vision statement: “Our vision is to be earth’s most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.” As we’ll explore later, Amazon, like others including ING and GE, has redefined itself as a “platform” (or “place”) to which buyers and sellers can (virtually) come to find information, share experiences, and do business. We think this is just the tip of the iceberg.

...it’s just not evenly distributed – yet”



Science fiction author, William Gibson, gets credit for the quote, but it was clear in talking with research participants that the disruptive force of a Digital World is impacting industries at different paces. One might say there are disrupt-ers (e.g., many, but not all, technology firms) and disrupt-ees (e.g., insurance and financial services) who we found are quite thankful to have had some time to catch up (although we fear some may have a false sense of security, thinking their digital advertising or process automation efforts may suffice).

The customer is (really) the CEO



Few dispute the old axiom, “the customer comes first” but digital transformation has brought entirely new focus and meaning to the phrase. For most leaders, the impact of the shift to a digital organization is most clearly felt at the organization’s interface with its customers or, in public sector/nonprofit environments, those they serve. The experiences consumers have come to expect in industries such as communications and retail are now being transferred to insurance, financial services and even the public and nonprofit sectors. Demands and expectations are evolving quickly and our research, along with client work, has highlighted the growing number of organizations racing to create much stronger, more robust customer experience (often referred to as “CX”) capabilities. No longer is the focus group approach enough; more and more organizations are recognizing the need to bring their customers into every single step of the value creation process – and as of right now, most don’t know how. The CX field itself is rapidly developing as an entirely new service industry.



Many leaders feel unprepared



Many leaders feel daunted by the challenge of fully moving their organizations into a Digital World, knowing their organizations must adapt but not knowing how, or even what needs to be adapted. This is not surprising: paradigm shifts are, by nature, difficult to perceive and understand when one is in the midst of them. There still is no clear roadmap or “best practices” of what exactly to do about it or what it will take to get “there.” Or even what it looks like on the other side of “there”! Leaders are asking “what are the concrete actions and steps that will lead to successful transformation?” Encouragingly, in our work with clients at The Clarion Group, we are refining multiple transformation approaches despite being unclear as to what the future holds.

There is a pervasive sense that new, digitally-based start-ups are at an advantage



We hear regularly from clients that organizations that have come into being in the Digital World are not encumbered by legacy cultures, structures and systems and demonstrate greater speed, innovation, and agility. As evidenced by the interviews we conducted, there is a huge difference in the business models, structures, and leadership mindsets between companies that originated in the Industrial Age (or “Machine Age”) versus the Digital Age (often called the “Second Machine Age”). In fact, we are finding that even disrupt-ers are struggling with getting the operating model fully in sync in their organizations, often challenged by legacy cultures, slow strategy, and/or insufficient leadership capabilities.

Most leaders see culture as either an impediment or an enabler of their digital transformation efforts



As recently as a few years ago, most leaders viewed culture as a functional task of the Human Resources Department. Today, culture is now top-of-mind for almost every leader we’re talking to – even those who have in the past been reluctant or even resistant to tackle the hard, messy work of intentional culture change. This shift is being driven by the growing recognition that embedded cultural patterns of organizational behavior seem to be increasingly getting in the way of transformational change. This may be particularly resonant if you’ve ever undertaken efforts in your own organization to adopt agile principles, design thinking or structureless structures.



Reflections on how the digital world is impacting organizations



As we journey with our clients into this Digital World, it's become increasingly clear that transformational change requires that strategy, structure, culture and leadership behavior all be considered holistically and in parallel. Transformation must be intentional and requires leaders to orchestrate significant change. A daunting task for even the most experienced and courageous leaders. As one of our clients recently commented, "it's like accelerating down the highway to 100mph while at the same time trying to build the car!"

The following are high-level operating model themes that have emerged from our research-to-date and our conversations with many clients as they fully lean into leading their organizations into the Digital World.

STRATEGY

- Between 2008 and 2009 we observed a significant decrease in traditional strategic planning efforts as companies "hunkered down" to weather the economic storms. Emerging from the economic turmoil with renewed focus on growth starting in 2010, many organizations were challenged with finding areas of attractive growth in the "new normal" era of uncertainty and slow growth. What was not clear then, but is now becoming very clear, is that for all the efforts expended on long-range strategic plans, many organizational plans failed to fully recognize the parallel challenge of doing business in a new highly networked, technology-driven environment.
- In a business environment which is now by its very nature technology-driven, digitally accessible and highly networked, it is impossible – and in our opinion, unwise – to formulate an operating strategy without simultaneously formulating a digital technology strategy. They are inseparable. Yet for various reasons, this does not appear to be happening in many organizations.
- Strategy formulation itself requires more adaptive approaches. Classic strategic planning is not agile enough to keep up with the pace of change in the Digital World environment.
- As author Chris Outram develops in *Digital Stractics: How Strategy Met Tactics and Killed the Strategic Plan*, strategy and tactics are increasingly intertwined. The fluidity of digitally enabled business models requires leaders to dramatically accelerate the speed at which decisions are made and embrace a more dynamic, tactical playbook approach to strategic planning.





ORGANIZING STRUCTURES

- Of all the Operating Model challenges leaders face, the impact of structural change appears to be the least understood, both in terms of importance and what to do about it. In nature, organisms have two mechanisms through which to adapt to changes in their environment: behavioral adaptations (culture, mindset) or structural adaptations. We fear that many of the positive behavioral experiments embraced thus far (e.g., agile, design-thinking, etc.) will not succeed without deeper structural changes.
- Many leaders recognize and can speak to a shift from hierarchical to networked models of operating, or how that nature of work is now more horizontally matrixed and team based. But few can articulate the deeper dynamics of changes in industry or market structures and how their own organizational structure must change to keep pace.
- The nature of the environment in which organizations now operate is characterized by the immediacy of digitally-delivered data, the rapidly expanding constellations of working relationships (what are often called “organizational ecosystems”), many of whom are now external to the organization, and the unprecedented speed at which network connectivity is evolving. In Marc Andreessen’s words, “software has eaten the world.” We believe the design principles and structures inherent in software systems architecture that have already shaped the world of business in dramatic ways, are not being recognized, and we believe it has great relevance for shaping the design of organizations as well.



Just how organizational structures might adapt to this new environment is what we will explore in our next article.



(Spoiler Alert! The roadmap for structural change may already exist!)



LEADERSHIP

- Leaders navigating their organizations fully into the Digital World must straddle the old and the new, bringing sensitivity and understanding of the past and clarity to the destination and the path forward – all while the ground is shifting beneath their feet.
- Organizing structures are moving at an increasing pace from hierarchical to networked (e.g., less top-down leadership; enablement of more fluid work groups formed to get specific work done). However, the leadership behaviors required are not yet clear or natural for many. A great number of leaders with whom we've talked are finding the tools in their toolbox that have always worked, aren't working so well anymore.
- What is often not recognized is that leadership behavior changes are required in tandem with organizing structural changes. They are interdependent.



CULTURE



- No less an industry expert than Pogo called it right a half century ago – we ourselves are the problem. Flying in the face of a recent Harvard Business Review article (“Culture is Not the Culprit,” April 2016), we hear and observe that culture is the culprit. Culture is often getting in the way of strategic execution. Just recently, in working with a client, we found ourselves guiding a CEO to abruptly pivot his senior team to culture work during their strategic planning offsite recognizing that “how” the organization worked (i.e., culture) was the key enabler to “what” the organization had to do (i.e., strategy).
- Almost to a person, leaders talk of the need for their organizations to become more adaptable, innovative, responsive, agile, open to change, omni-channel connected and accessible to consumers. A culture that fosters a healthy sense of urgency and fully supports experimentation is paramount in the face of the exponential speed of change and increased complexity.
- Several industry experts have concluded that creating the right culture, finding and developing the right talent, and maintaining consistent employee engagement are the most significant barriers to the transformational kind of organizational change required to move fully into the Digital World. Far more than the technological re-wiring, it can be the neurological mindset re-wiring that is most challenging.



The Clarion Group has always been committed to operating at the intersection of business and humanity. In our experience, never has a holistic and humanistic approach to organizational evolution been more relevant than in today's Digital World. In our next article in this series, we will go into detail about the nature of organizational structures now competing in a market environment designed and defined by software technology and digital networks.

"There is an indisputable need today to focus – simultaneously – on the social, or human, elements of organizations and the technical elements. For decades there has been an acceptance of the need to focus on the methods of production to maximize value; the expansion of technology has given credence to the sociotechnical system design (or STS) approach. The difference now is that the acceleration of technology advancement must be met by an equally broadened view of how people interact with each other and with technology as one, fully integrated operating model, thus giving rise to the socio-tech operating model."

Wendy Helmkamp, Partner

As you consider your organization's journey into the Digital Age, we'd encourage you to consider the following:

- What will your organization actually look like in the context of a digitally-focused socio-tech operating model and how will you get there?
- What are your most critical operating model dimensions, and how do you accelerate the pace of transforming your core business?
- In parallel, how do you experiment, market test and build greater digital capabilities that dramatically improve relevancy, financial performance and/or valuation?

***The Advisors of The Clarion Group
Bill, Jon, Wendy, Chuck, Roy, Ashley, Laurie, Dave and Andréa***