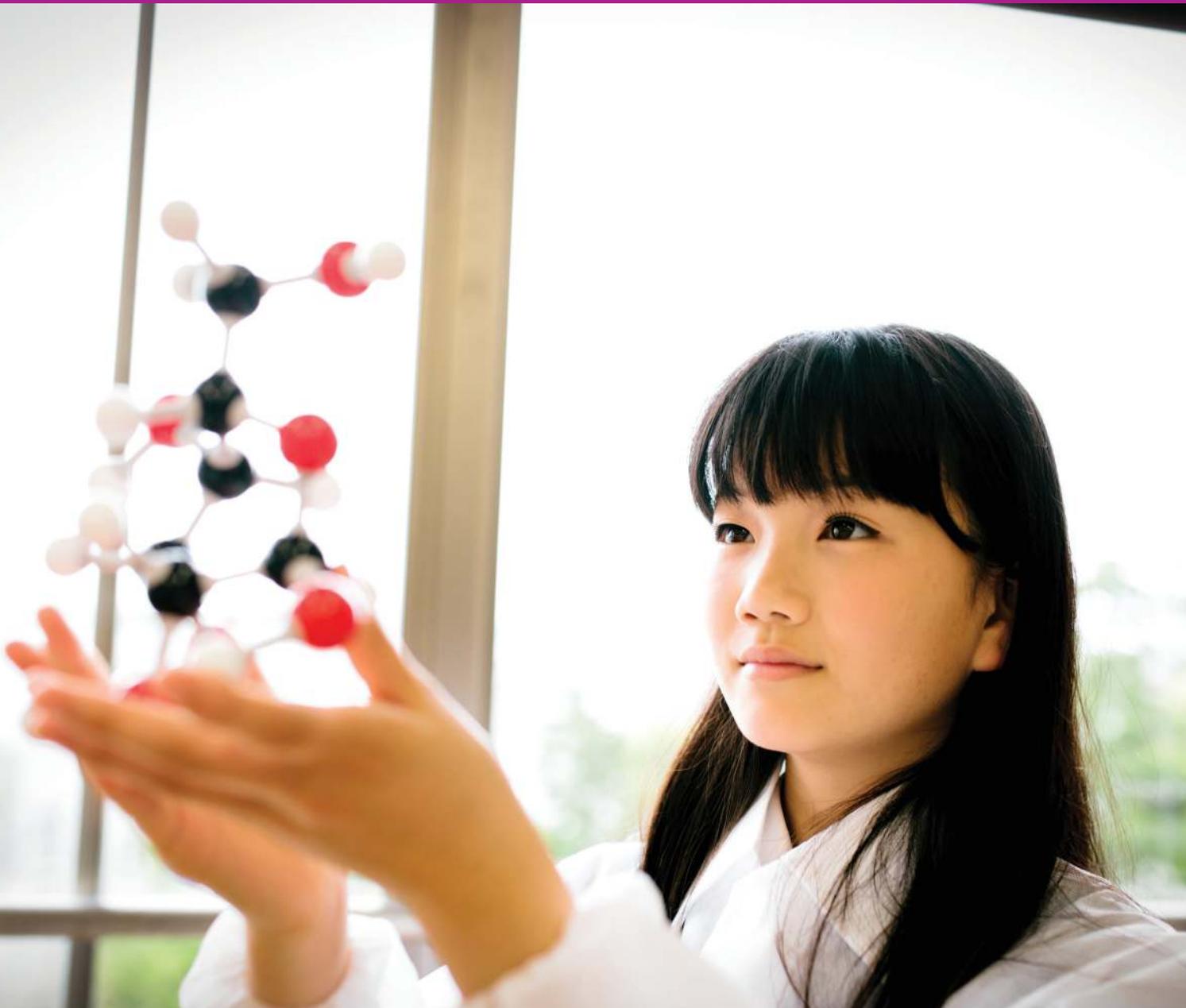




KORN FERRY®

Rebuilt to last: The journey to digital sustainability.

The digital economy has its own rules. For traditional organizations, adapting to them involves much more than embracing technology. It means transforming how they work. And not just once. Organizations need to embed this ability to change into their DNA, so they can continually respond to a fast-moving new reality and become digitally sustainable.





The digital imperative.

It seems everyone's talking about digital transformation. But at Korn Ferry, we're talking about something more. We're talking about digital *sustainability*.

Why? Because 'digital transformation' generally means using technology to drive change. And secondly, because 'transformation' tends to imply a defined end-point.

We don't think businesses should be looking at things in this way.

Digital sustainability is the ability to thrive in a continuously changing digital world. This requires more than just keeping up with the latest technology. To succeed, firms need to weave the ability to continually transform into the very fabric of the organization: into their culture, ethics, values, beliefs, processes, and practices, and into the mindset of their entire workforce.

This is a huge change for traditional organizations. Over decades they have perfected ways of working that deliver efficiently and effectively at scale but don't lend themselves to agility and innovation.

Recent research highlighted in Harvard Business Review shows that the greatest challenges facing companies going through digital transformation are top-down structures, an inability to experiment, limited change management capabilities, legacy systems, a risk-averse culture, and an inability to work across silos (HBR, 2016).

Only by re-imagining their businesses, can leaders make their organizations digitally sustainable.

Some will rise to the challenge. They'll move fast, and gain a critical edge over their competitors. Others will fall by the wayside. The harsh reality is that fifty years ago, the average lifespan of a Fortune 500 company was around 75 years; today, it's less than 15 years - and getting shorter all the time.

This paper explores how traditional organizations can make the journey to digital sustainability. It identifies the organizational capabilities required for a company to continually transform, and offers a blueprint for how to get there.

“Taking a digital-first approach is a journey towards a new way of doing business. It requires a mindset shift first, followed by technology and process shifts. You can't overhaul your platforms and solutions without changing your culture and thinking. That risks replacing legacy infrastructure with modern technology, at great expense, with little impact on customer and business outcomes.”

Brett Pitts, Head of Digital, Wells Fargo

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New realities, new opportunities

We live in a digital economy: a virtual environment that's changed the rules of doing business. It has made disruption the norm. It has put customers, not companies, in charge. And it has transformed workforce dynamics, as the 'born digital' millennials come to prominence in the workplace.

But it is also ripe with opportunity. Organizations can engage with customers and employees like never before. It holds the potential to drive operational efficiencies, save time and money, and explore new commercial avenues. When it's far cheaper to build an app than a manufacturing plant, there are greater returns on offer, for significantly lower investment. It's predicted that 41 percent of enterprise revenue will come from digital business by 2020 – that's almost double what it was in 2015 (Gartner, 2016).

For the Googles, Ubers and Facebooks of this world, facing these challenges, and realizing and exploiting these opportunities is second nature. But for traditional firms, it's a whole new world.

So how can these organizations seize the opportunities of the digital economy?

To help answer this, Korn Ferry gathered views from leaders who are driving transformation at some of the world's most successful organizations. The company also drew on the experiences of its own business transformation experts, and research by Korn Ferry and other authorities on business change.

This enabled the firm to identify:

- the leadership and organizational capabilities that enable digital sustainability.
- a roadmap to become digitally sustainable.

Critical capabilities

Korn Ferry believes that to achieve digital sustainability, the following five leadership and organizational capabilities are essential:

1. Discipline and focus.
2. Agility.
3. Connectivity.
4. Openness and transparency.
5. Empowerment and alignment.

1. Discipline and focus

Organizations that successfully transform for a digital world are clear about what digital means to them. They define their desired outcomes, and focus relentlessly on achieving them. They do this by prioritizing the things that drive the most value – typically customers, data, and talent.

They are also disciplined about execution. They decide quickly what to invest in, then draw on their strengths to implement it efficiently, effectively, repeatedly, and at scale.

“You must be crystal clear on what the desired outcome is, and how it will benefit customers. Then push relentlessly for it. Stay incredibly focused on what will have the biggest impact, and try to avoid the myriad of distractions.”

Michelle Peluso, Chief Marketing Officer, IBM



2. Agility

The new world moves at lightning speed. Digitally sustainable organizations are agile: they think fast, decide fast, execute fast, fail fast, learn fast, and scale fast.

Agile businesses run planning and execution in parallel and they invest in scenario planning, so they can act promptly when opportunities arise.

They are also prepared to take risks. They create solutions based on what they already know, then evolve them as customer feedback comes in. This means streamlining reporting lines; engaging a wider group of stakeholders at the outset; sharing ideas and plans before they're fully formulated; and seeking input along the way.

Agile firms are also quick decision-makers. They'll launch several projects at once, to see what works and what doesn't, then make rapid decisions about what to invest in, and what to draw a line under. When they commit, they do so wholeheartedly, with significant amounts of budget and resource. And when they fail, they fail fast, and learn from their experiences.

The ability to move fast also depends on developing learning agility across the enterprise. Agile businesses develop their people to continually acquire new skills, learn from experience, face new challenges, and perform in an ever-changing climate.

“We're absolutely fine with people going out, not getting it right the first time but learning very quickly and then making the changes at speed.”

Rahul Asthana, Senior Director, Baby & Childcare Sector, Marketing & Innovation Asia Pacific, Kimberly-Clark

3. Connectivity

Agile organizations are connected organizations.

Connected businesses create ecosystems made up of networks of people, from within and outside of the organization, who can drive change. They've moved away from defined roles and traditional organization constructs to bring multi-disciplinary teams together from across the organization with shared objectives and metrics to deliver on specific projects. Ideas and input come in from all sides and segments and across all stakeholder groups; they actively collaborate with the outside world: they co-develop solutions with clients, partners and even competitors, to help find answers and accelerate delivery in a world that moves at pace. As well as learning from the outside world, these organizations also actively contribute to the wider ecosystem, helping to grow and influence their networks of clients, partners and suppliers.

“Once you recognize that you don't know everything and you're not the best, you look out and get best in class examples and we're happy to learn from people who are not even in our industry”.

Rahul Asthana, Senior Director, Baby & Childcare Sector, Marketing & Innovation Asia Pacific, Kimberly-Clark

4. Openness and transparency

Lift the lid of any successful digital organization, and you'll find an open and transparent mindset shaping the way it works. The digital economy requires people to collaborate, solve problems, and think creatively to meet customer expectations. This means everybody has a voice.

Open businesses understand that brands are now public property. Customers and employees can find out anything they want about any business, and pass judgement on it, at the click of a mouse or the touch of a screen. Open organizations respond to this climate by being deliberately transparent about their ethics, responsibilities, decisions and practices. They leverage their own IP where they can, but are happy to find and apply IP from outside when needed.



5. Empowerment and alignment

Digitally sustainable organizations empower the parts of the organization that are closest to where value is created. And in the digital economy, value is most likely to be found in three places: customers, data and talent.

Successful organizations put power into the hands of the people closest to these assets: IT, R&D, marketing, HR, and customer operations.

They achieve this by focusing on alignment. They ensure that everyone, from the board to the frontline, is clear on three things: what the business stands for, what it's trying to achieve, and how this is being implemented. This enables people to make the right decisions in the moment, without the need for continuous guidance.

“You really need to empower the people on the front lines, the leaders of the market and support them so that they can move fast and they can take the right decisions”.

Rahul Asthana, Senior Director, Baby & Childcare Sector, Marketing & Innovation Asia Pacific, Kimberly-Clark



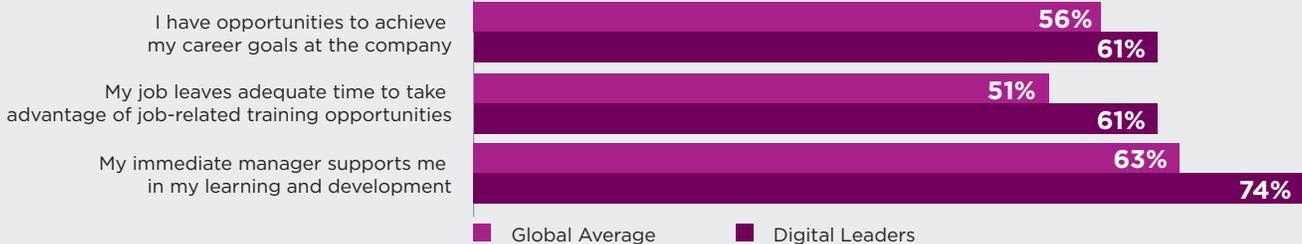
What do digital leaders do differently?

We analyzed our database of 4.5 million respondents to company employee surveys. Our aim was to discover how employee experiences in organizations that are seen as leading the way in digital transformation differ from that of their peers.

We found that these organizations do four things well:

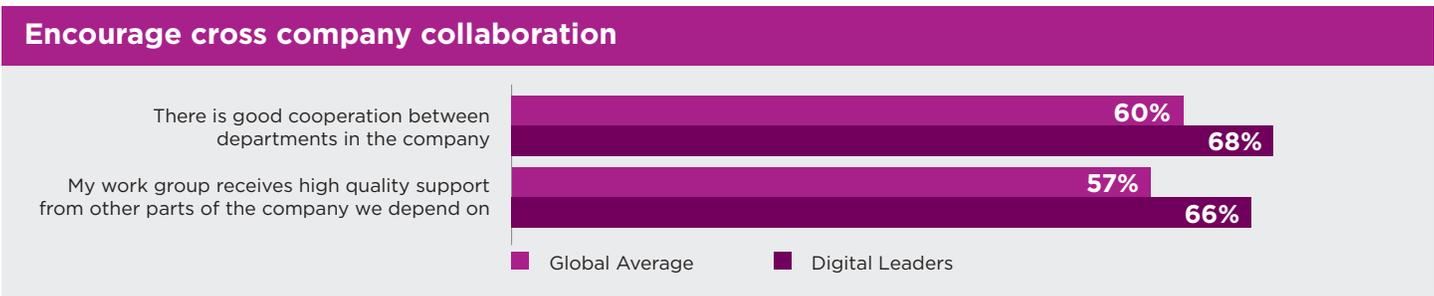
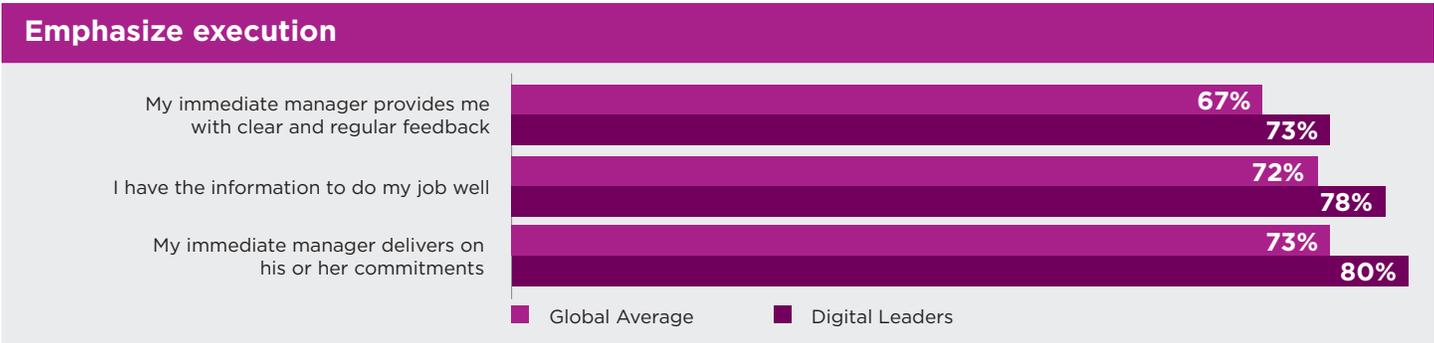
- Develop and retain talent.
- Manage change well.
- Emphasize execution.
- Encourage cross company collaboration.

Develop and retain talent

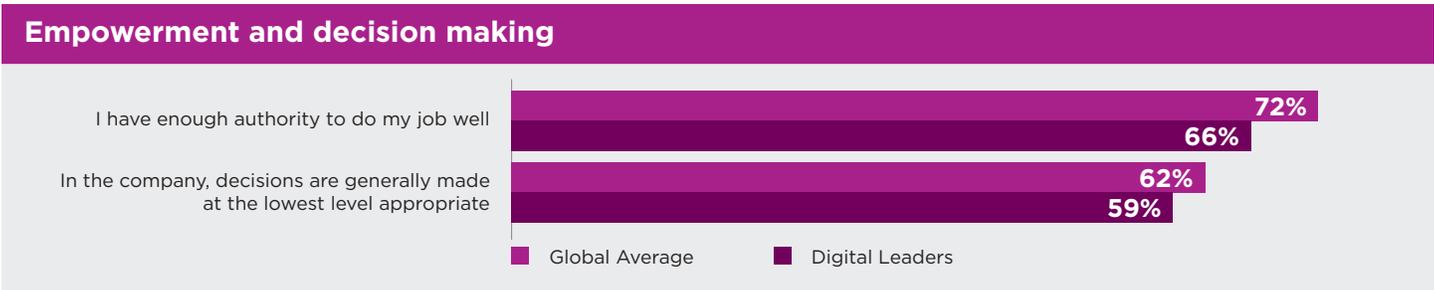


Manage change well





But we also found that employees at these organizations want to be more empowered to make decisions:



Since fast decision making is crucial to succeeding in the digital world, this finding seemed surprising. It could be that employees at these organizations are used to having high levels of decision making power. Whereas in more traditional organizations, with a deeper level of hierarchy, employees may have lower expectations around empowerment and level of decision making.



A roadmap to success.

How do traditional firms develop the five leadership and organizational capabilities that are needed to become digitally sustainable?

To answer this, we've developed a roadmap based on Korn Ferry's Superior Performance Model (SPM).

The Korn Ferry Superior Performance Model in a digital world





Superior Performance

Superior performance looks different in the digital economy. It still comes down to shareholder value, as it did in the old world. But generating value in the digital domain also depends on the ability to continuously innovate, evolve your business model and respond quickly to customer demands.

It also depends on your willingness to do the right things in the eyes of society, which is what today's customers expect. Digital technology, and the data it produces, gives businesses enormous power, which can be used for good, for self-serving reasons – or worse. Google knew this when it made 'Don't be evil' a corporate value.

Discretionary Energy

Releasing the discretionary energy of employees is the key to achieving superior performance in a digital world. Organizations cannot transform, and keep day-to-day business moving, if people are only willing to do what's expected of them. Unlocking people's discretionary energy means they are happy to work harder than they have to, because they believe in what they're doing, trust in the company, and feel supported by it.

Leadership

Digital sustainability must be owned, inspired, and driven, by leaders at the very top of the organization – then amplified down through the senior management tiers. It can't be delegated to an individual role. Leaders are both the catalyst for the journey, and the glue that holds the people together during it. They must design the journey, steer the business through it, and inspire the workforce to join it. Leaders have two sets of levers at their disposal to achieve this: organizational enablers and people drivers.

Organization Enablers

- Purpose and vision: the organization's raison d'être – what it exists to do.
- Choice and focus: the strategy, operating model and structure to achieve the purpose and vision.
- Accountability and fairness: a high-performance work environment, where people own their responsibilities and are fairly rewarded for carrying them out.

People Drivers

- **Clarity:** employees' understanding of their role, and of their part in achieving the organization's strategy.
- **Capability:** talent with the right knowledge, competencies, and attributes, in the right places, at the right time.
- **Commitment:** people who are motivated and enabled to play their part in the firm's success.



Driving digital sustainability.

Outlined below are the steps organizations need to consider to achieve digital sustainability under each element of the Superior Performance model.

Leadership

Getting the right leaders in place is the first step. Leaders are critical to creating an environment where people actively decide to focus their discretionary energy on digital. It is the leader's job to inspire the workforce, and to build trust, so that people feel that they can think differently, innovate, fail from time to time, and still be supported.

To do this, leaders need to build a vision for their business in the digital world, then change the culture by setting an example: by doing what they say they will, every single time.

But it's a special kind of leader who can transform an organization. Experience of driving change is difficult enough to find; but leaders who can spearhead the transformation for digital are extremely rare indeed.

It's tempting to assume that the answer will lie in paying a premium to hire leaders from pure-play digital businesses. But Korn Ferry research suggests that leaders of such firms – 'born digital' leaders – can be too narrowly specialized. (Vickers et al, 2016).

Transforming for digital does demand digital expertise, agility, the ability to make connections, and a passion for ideas. But, at the same time, it requires the knowledge and experience to inspire and drive transformation in a traditional setting.

As such, the solution may instead lie in developing from within, or recruiting from traditional businesses that are further along their transformation journeys.

"The experience of a leader who has successfully led this kind of change, in a large, complex enterprise, can save years and millions of dollars. That experience is hard won."

Brett Pitts, Head of Digital, Wells Fargo

Organization Enablers

1. Purpose and vision: Re-imagining the business

Setting out the purpose and vision of the company in the digital world, and aligning the top team behind it, is a critical first step towards a successful transformation.

Part of this purpose should be a clear vision of the organization's values, ethics and responsibilities. What does the business stand for? Is it what customers expect? How will it be reflected in the firm's decisions and practices, and in leaders' and employees' behavior?

This vision of change should be the catalyst that engages stakeholders behind the firm's transformation goals. It will also create the guiding principles by which employees make decisions in a world that moves too fast for bureaucracy and rules. It therefore needs to be communicated, clearly and compellingly, to customers, employees, partners, suppliers, and shareholders.

Critically, leaders also need to reimagine their culture to make change happen, and allow employees to live by the firm's digital purpose. The five organizational capabilities discussed earlier in this paper should be embedded into the culture of the organization in order for it to become truly digitally sustainable.

This will be one of the biggest challenges for traditional organizations. Half of organizations that are lagging behind when it comes to digital transformation describe their culture as 'risk averse' (HBR, 2016). Whereas the leading companies



in this area have cultures that share common characteristics - valuing experimentation and speed, embracing risk, creating distributed leadership structures and fostering collaboration (Kane et al, MIT Sloan Management Review and Deloitte University Press, 2016). Businesses will need to pull every available lever to forge a culture that drives transformation in a digital world.

2. Choice and focus: *Defining digital*

Leaders will need to make important choices about how digital the organization should become, and how quickly. How much additional revenue should come from digitization today, and in two, five and ten years' time? What cost efficiencies can be achieved? How much disruption is acceptable, and to which parts of the business?

These decisions are likely to impact the organization's operating model. As noted, back-office operations like technology, marketing and HR will probably need to take center stage.

Another consideration for leaders will be how to create a structure that reflects changes to the operating model, and optimizes the organization's ability to execute its strategy. While doing so, they should bear in mind that the digital world demands flatter structures, open boundaries, and connected ecosystems.

New ways of working will also be required, as well as multi-functional teams to work on projects. Leaders will be tasked with encouraging and enabling widespread collaboration, not just internally, but beyond the organization's boundaries. And they'll need to make crystal clear how this should work.

Finally, there needs to be clarity around governance and decision making processes. This will mean authorizing and equipping staff at all levels to make the right day-to-day decisions, while keeping centralized processes in place for the big, strategic calls.

3. Accountability and fairness: *Activating networks*

Roles, accountabilities and processes within the organization's new set-up must be abundantly clear if the digital strategy is to be put into action. For example, how will the Chief Digital Officer work with the function heads? How will agile working practices change people's accountabilities?

Leaders will need to define the purpose, performance expectations and degrees of autonomy for each job role within any new structure. They can then fit the right people into them, and help staff to be engaged and proactive, which will drive performance at all levels.

“It's important to set the right expectations clearly with your existing talent on what changes they need to bring to be future-ready and then to give people time to adapt.”

Rahul Asthana, Senior Director, Baby & Childcare Sector, Marketing & Innovation Asia Pacific, Kimberly-Clark

One powerful way to engage people is to treat them fairly. Fairness should be explicit in the company culture. It should be reflected in the diversity of the workforce, the firm's HR policies, the career opportunities it offers - and of course, its reward programs.

Pay must be clearly linked to performance, and incentivize collaboration and innovation. People should be rewarded based on their real contribution to the business. This can be challenging in the digital world, when new jobs constantly emerge without a pay precedent, and rare tech talent commands a premium. The solution lies in tailored and flexible compensation models, which will also help keep a diverse workforce highly motivated.

People Drivers

1. Clarity: *Communicating expectations*

A compelling communications plan relaying the company's vision, purpose, values and beliefs will achieve high level clarity for employees. But they also need to know exactly what's expected of them in delivering the vision.

Staff will need clarity over their role, their place in the structure, their job description, the metrics by which they'll be measured, and the rewards and opportunities available if they achieve these.

Performance management will be critical to maintaining this clarity. As such, it should be a daily activity rather than an annual or bi-annual check. It should be future focused, not about past behavior. And it should assess team performance, not just individual contribution.

“You have to create clarity about what you want to do for the business to succeed. You have to be able to really tell the story about where you're trying to go, what you're trying to do, and why that's your mission.”

Michelle Peluso, Chief Marketing Officer, IBM



2. Capability: *Optimizing talent*

Recruiting, retaining, and engaging the right talent is a frequent stumbling block for businesses that are transforming for digital. Research by Cap Gemini Consulting suggests that 77 percent see digital skills as the key hurdle to digital transformation (Spritzer et al, 2013).

But it's not just digital skills that will be in high demand. From the boardroom to the plant floor and the frontline, attributes like learning agility and emotional intelligence will be required to succeed in a fast moving, loosely structured world.

Learning agility

Learning agility, desirable in leaders and employees alike, is an individual's ability to continually acquire new skills, learn from experience, face new challenges, and perform well under changing conditions. If a critical mass of employees with learning agility exist in a company, it becomes a significant organizational capability.

Learning agility encompasses five factors:

1. **Mental agility**—embracing complexity, examining problems in unique ways, making fresh connections, and staying inquisitive.
2. **People agility**—being open-minded toward others, enjoying interaction with diverse groups, bringing out the best in others.
3. **Change agility**—continuously exploring new options, willingness to lead transformation efforts.
4. **Results agility**—delivering results in tough situations, responding to challenges, inspiring others to achieve more than they thought possible.
5. **Self-awareness**—being reflective, understanding strengths and weaknesses, seeking feedback and personal insight.

(Swisher and Dai, 2014)

The first step to securing the right workforce is to understand the capabilities, traits, drivers, experience, and knowledge the organization will require, now and in the future. This will be different in different organizations.

Once this has been defined, leaders can develop a clear plan to get there. They'll need to draw from a wide talent pool for the best chance of finding the right people - and to build the diverse workforce that's critical to digital success. Breakthrough innovation happens when individuals who

think differently, and have different experiences, come together in teams.

It's likely that 'digitally ready' talent already exists in many traditional organizations. Leaders should start by identifying which of their employees are ready to 'go digital'. Others will need bringing up to speed. This will require a significant investment in training and development, but it will be worth the effort, as the external market will never provide the quantity of talent needed. Plus, investing in your current staff is a powerful way to make sure the workforce gets behind the transformation.

Of course, most businesses will find themselves hiring at least some of the talent they need from outside. Success will mean making their employer brand appeal to a new type of recruit. And it will mean spending time on-boarding them, and ensuring that the environment engages and enables them to deliver.

"It's vital that you're embedding great digital talent across the organization. And for a traditional organization, that means doing four things.

Firstly, overcoming the perception that you're a big corporate with big legacy issues, by articulating your vision for what the organization is trying to build. Secondly, making sure you're offering them real scope, real accountability, a real remit with real budget responsibilities, and a real chance to affect the bottom line.

Then once they're in place, stay close to them, so you can remove any obstacles in their way. And finally, help them understand what's worth it, what's not, and how and where they can make an impact in a big organization. As a leader, you must commit to helping them understand how to make change happen."

Michelle Peluso, Chief Marketing Officer, IBM

3. Commitment: *Galvanizing your people*

"When you ask your people to do something completely new and disruptive day after day, it's not enough to start a fire beneath them. You need to work out how to release the fire burning inside of them."

Avdesh Mittal, Senior Client Partner and Managing Director, Digital - APAC, Korn Ferry Search



Instilling dedication and commitment to transformation into the workforce will be critical. Organizations won't achieve their digital aims without their employees going the extra mile, while keeping the day job going.

Gaining the commitment of the workforce will also aid retention. This will be crucial when digital skills are in such short supply, and there's a need to recruit talent from pure-play digital firms.

The best way to drive commitment is to rally employees around a common vision and purpose, a strong sense of ethical responsibility, and a clear set of values and beliefs. People must feel that they're working for a cause, not just an objective. This will call for compelling and original communication strategies.

They will also need to provide employees with development and growth. A digitally sustainable organization is a diverse one - so creating flexible and appropriate career paths will be key.

“The working environment is of paramount importance to digital talent. Can they bring in the people that they want? Is their day not too packed with long meetings? Can they wear what they want at work? If not, it will signal bureaucracy, which can really frustrate top digital leaders.”

Michelle Peluso, Chief Marketing Officer, IBM



Conclusion

Like the industrial revolution 250 years before it, the digital revolution has transformed the times we live in. It has taken us into a new age, and changed the meaning of value.

In the industrial age, value came from machines. With the start of the digital revolution, it came from technology, from data and algorithms. But now, and in the future, it will come from people (Jean-Marc Laouchez et al, November 2016).

People bring the creativity and discipline needed to understand how to use technology and bring about transformational change.

But for organizations to harness these qualities in their people, they need to inspire them to bring their all to the cause of digital sustainability. This means moving away from traditional power structures, and creating open, transparent and connected organizations with cultures that encourage innovation and experimentation.

That's how to build a business that's fit for the digital economy. That's how to be truly digitally sustainable.

“Transforming for digital is an existential challenge for most industries. But it’s a worthwhile journey to undertake. Successfully done, it orients the firm around customers and employees. And it puts the business and technological support in place to build competitiveness, and prepare the company for the next decade.”

Brett Pitts, Head of Digital, Wells Fargo



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Get in touch

To discuss how Korn Ferry can help accelerate your transformation, please contact: clientsupport@kornferry.com or visit www.kornferry.com.

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