DIGITAL LEADERSHIP

Becoming Digital: The Challenge Facing CIOs

THE CIO ROLE IN A DIGITALIZATION ERA

WALK
Meaningful Business Transformation

Most corporations worldwide are heavily investing in digitalization. Those that get it right will reap huge rewards: increased customer satisfaction, significant efficiency gains, and a powerful revenue boost.

However, it is not an easy task. Digitalization is a company-wide effort, that should be ferociously led by the CEO and the leadership team, in alignment with the overall business strategy. The quality and speed of its execution will determine whether it leads to extraordinary business results, mediocre outcomes, or just a waste of time and resources.

CIOs can play a key role in driving their companies' digitalization, by unlocking business innovation and growth with new digital technologies. Their biggest challenge is to do this while continuing to run IT day-to-day operations efficiently and reliably. This calls for a profound IT reinvention.

Introduction to digital technologies

Digital technologies are fundamentally reshaping customer experiences. Netflix suggests movies that you might like based on your previous consumption. Wells Fargo has a mobile app where you can turn your credit/debit cards on and off with the swipe of a button. You can order a car from Uber with one click on your phone and receive immediate information about the driver. You can buy a fully personalized Tesla car on their website. And the list goes on.

CIOs can play a key role in driving their companies' digitalization

Businesses are leveraging digital technologies not only to improve customer experience, but also to implement new business models, build revenues, and reduce costs. In healthcare, Artificial Intelligence (self-learning algorithms) helps to prevent diseases with sensored medical devices. In manufacturing, the Internet of Things (smart and connected devices) reduces inventory carrying costs. In oil and gas, digitally optimized asset development decreases the time required to analyze exploration leads, predictive systems for rotating equipment reduce maintenance costs, and data-driven pricing optimizes go-to-market decisions.

According to research published by HBR in November 2018, 87% of senior business leaders say that digitalization is a strategic priority for their company. Digitalization achieves outstanding business outcomes by leveraging new technologies, transforming core business processes, and

adopting new ways of working. It offers huge opportunities to large corporations, but it also entails significant threats. Driving it successfully is not an obvious task, which makes the IT function more strategically relevant than ever before.

What is digitalization?

An opportunity to reinvent IT

A key success factor of digitalization is strong commitment from business leaders and close collaboration between them and the technology experts. In most corporations, however, the existing relationship between IT and business leaders is a transactional one, where the business makes a specific functional request and IT delivers a technical solution. Digitalization demands a new, more mature, horizontal, and collaborative relationship paradigm between IT and the business.

Other key success factors are a revamped IT infrastructure (cloud technologies, automation and virtualization) and workforce. There is increasing demand for new digital profiles, such as DevOps talent, cloud engineers, data scientists, and automation engineers. According to the 2019 World Economic Forum, 40% of the IT workforce will need to be fundamentally retrained or replaced in the coming years to close digital skill gaps. Attracting, developing, and retaining these new profiles demands an evolution of culture and ways of working, towards increased personal autonomy and greater sense of purpose.

Finally, digitalization demands cross-functional collaboration, customer focus, speed, experimentation, creativity, and innovation. The IT function often lacks many of these capabilities and mindset. Evolving IT's culture and implementing new ways of working is imperative.

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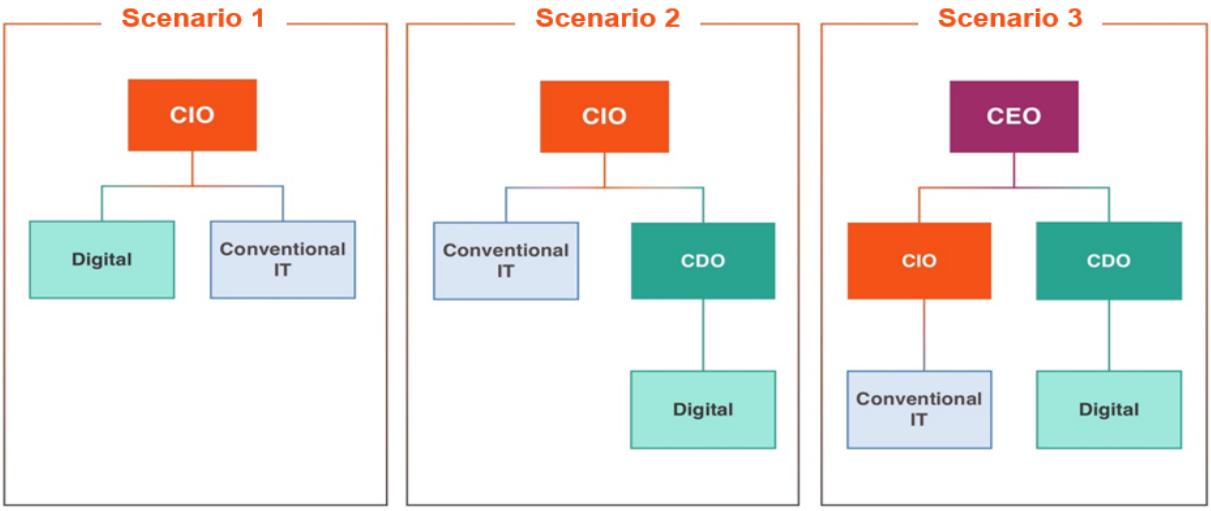
Barriers to implementing digital at scale

Transforming IT's culture, workforce, and technological model is a complex and gradual process. As a result, to get digitalization off the ground in a timely manner, many corporations have set up a "Digital" group with the right profiles, budget, and CEO sponsorship. This group usually consists of a mix of new digital hires and selected IT employees. The group generally reports to the CIO or a newly appointed CDO (Chief Digital Officer), who in turn reports to the CIO or CEO.

Organizational choices

To get the digital program off the ground, many companies set up a Digital group



With the creation of a Digital group, two different work dynamics live together: one focused on speed, creativity, innovation, and growth, and another with emphasis on efficiency, reliability, and SLAs. This dichotomy can generate a cultural clash between Digital and “conventional” IT employees.

Organizational dynamics can amplify this cultural clash. For example, if digital employees receive a lot of exposure to the CEO and the C-Suite, or if they get significant budget for new investments and recruiting, their “conventional” IT colleagues might feel like “second-class citizens”. Digital work might also be perceived as more glamourous in terms of reputation and career development, which might demoralize those IT employees who are not involved in digital efforts.

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Once the digital program is up and running, both Digital and “conventional” IT employees quickly realize that they need to collaborate closely in order to implement digital MVPs (Minimum Viable Products) at scale. The reason is that most large-scale digital products interact with multiple legacy

systems, which are complex and constitute the backbone of the company's operations. Imagine a new digital business scorecard that covers multiple BUs, revenue data, cost data, quality data, and so on. The Digital team can work autonomously on the MVP version. But scaling it up efficiently and reliably requires oversight of the multiple back-end systems where the scorecard "reads" the raw data. Therefore, the Digital team needs to be closely coordinated with the IT employees who know, run, and maintain those systems.

In summary, in a company's digital transformation, the cultural clash arising between Digital and "conventional" IT employees may be natural and even necessary. Executives, with the CIO at the forefront, should proactively manage it through a gradual and sustainable cultural transformation.

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Driving cultural transformation

The CIO faces three major challenges to drive cultural transformation in order to become digital:

1. Embracing a new relationship paradigm with the business

IT has traditionally been a service provider, whose mandate was business enablement and operational support. As a consequence, the typical historical relationship between IT and the business has very concrete characteristics. First, it's a supplier-client relationship, where the business makes a specific functional request and IT responds with a technical solution and budget. Second, both parties speak different languages, with IT using technical terms that are unknown to the business, which creates a sense that they are dealing with a "black box". Finally, many studies on the "voice of the customer" show low satisfaction of the business with the services received from IT, in terms of cost, quality, speed, and transparency.

In the context of digitalization, however, true collaboration between business and technology leaders is needed to promote innovation and shorten response times. This calls for a more mature and sophisticated relationship between IT and the business. The desired relationship is a

partnership, where both parties have mutual trust and equal responsibility. They engage early on in the process, as soon as the business need is identified, and they co-create a solution in response to that need. Their relationship is fluid, with productive and frequent interactions.

> **Both parties should frequently interact to "test and learn", give each other feedback, handle difficult conversations, embrace functional conflict, and continuously re-prioritize their joint portfolio of technology investments.**

In order to develop a partnership relationship between IT and the business, a mindset and behavioral shift is required from both parties. On one hand, IT executives should internalize their new, more strategic role, and convince themselves of their worth and potential. Once that element of self-confidence is in place, they also need to engage the business. To do that, they should bring more value to the table, for instance, by proactively advising the business on new opportunities driven by the latest, most disruptive technologies. On the other hand, business executives should develop a mindset of appreciation towards IT and accountability for their commitments. They shall communicate more and better with IT, sharing insights on customer needs and business context. Both parties should frequently interact to "test and learn", give each other feedback, handle difficult conversations, embrace functional conflict, and continuously re-prioritize their joint portfolio of technology investments.

2. Engaging the leadership team around a shared digital vision

In our experience, IT-Digital leadership teams often display attitudes and behaviors that are far from those expected in a "High Performing Team" (HPT). They tend to struggle with difficult conversations and information sharing due to competing agendas and lack of trust. They also often lack a set of capabilities and mindset that are essential to digitalization, such as partnership with the business (vs. provider mindset), horizontal collaboration (vs. relying on the hierarchy), and experimentation (vs. following a detailed process).

The first step towards becoming an IT-Digital High Perfoming Leadership Team is to jointly develop and commit to a single and clear digital vision for the future. This vision should be fully

aligned with the company's digital mandate. Executives should personally connect with it and link it to their own source of meaning, so that the vision unleashes true motivation. A strong digital vision should also translate into a shared understanding of priorities: digital initiatives to be tackled first and why (stronger business case, higher urgency to launch), relationship model with the business, budget management, etc.

Once a common digital vision is in place, the IT-Digital leadership team can continue to evolve towards becoming a HPT by engaging in more frequent, honest, and open conversations. Through these conversations, executives build common ground, unlock collective intelligence, gain appreciation of their combined strengths, and understand each other's pain-points. For instance, Digital executives are often unaware of the scale and complexity of the legacy systems that lie behind their digital products. Likewise, "conventional" IT executives tend to underestimate the level of ambition and progress made by digital teams. Both parties strongly benefit from conversations where they gain a more realistic and comprehensive view of their IT-Digital context.

The team shall also jointly create and commit to a list of agreements about expected team and individual behaviors (e.g., full presence during meetings, reading materials sent in advance of meetings, following up on commitments between meetings). When the team gets off the rails, it should go back to its list of agreements, reflect on which attitudes and behaviors are limiting its performance, and make the necessary adjustments.

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The impact of aligning the leadership team around a shared digital vision goes beyond achieving productive team dynamics. It actually delivers business impact. We recently helped to align an IT-Digital leadership team of a multi-energy global corporation by supporting them individually and collectively as they tackled some of their most challenging priorities. Their increased level of connection and collaboration allowed them to quickly resolve critical problems that had been stuck for a long time. For instance, after years trying to modernize their IT investment processes, in only three months they designed and implemented a new model to finance IT-Digital investments. As opposed to the old model (annual cycle and highly bureaucratic), the new model is structured around quarterly stage-gates and ties financing to proven business outcomes. The impact is that funding is dynamically reallocated to those technology investments that are delivering better business results, which minimizes losses on underperforming projects and ensures funding is not a bottleneck to pursue new, brighter opportunities.

3. Implementing Agile and new ways of working

Successful digitalization only occurs once the organization at scale is mobilized towards the company's digital vision and effectively adopts new ways of working that promote innovation, creativity, and growth.

A powerful way for the CIO and the leadership team to engage their IT-Digital organization is through a compelling digital narrative. It shall cover three elements: "WHY" (personal connection to a common purpose), "HOW" (desired attitudes and behaviors) and "WHAT" (must win battles that will propel the company forward). It should present digitalization as an opportunity for employees to make a positive contribution to business and society, reinvent themselves for good, upgrade their expertise and skillsets, and grow personally.

We recently helped a CIO and his team to implement Agile and new ways of working through a systemic approach focused on the "WHAT" (meeting business goals within the agreed deadlines) and the "HOW" (adoption of desired mindset and behaviors). Working hand in hand with them, we set up a dozen multi-disciplinary teams with key employees from IT, Digital, and BUs, and we matched them to critical digital initiatives. Teams were self-organized and empowered, worked in sprints of four weeks, adopted Agile roles (e.g. Product Owner, Scrum Master) and followed Agile ceremonies (e.g., review, retro, sprint planning). In order to maximize business impact, after each sprint, the CIO, top team, and participants gathered together to review progress and decide whether to finish/start initiatives. We also had an ongoing feedback loop with the CIO, to help him create the best possible context for the transformation through his leadership style and narrative.

In terms of business impact, one of the dozen teams, for instance, optimized the approval process to scale-up digital MVPs (Minimum Viable Products). Initially, this decision ignored major IT recurring costs, that were unknown due to organizational silos. The team designed a check-list with the necessary information to make a robust cost estimate. They tested it in various digital cases and refined it iteratively. Today, in every "shark tank" (meeting where a decision is made on whether to scale up an MVP), the check-list is used and the decision is made with a solid business case. Although this initiative is simple, it translates into significant IT savings.

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Regardless of the methodology (e.g. Agile, Design Thinking, Lean Start-up), implementing new ways of working is, essentially, a mindset and behavioral change. Our consultants facilitate team dynamics and engage in 1:1 conversations, where they challenge participants to focus on what they can influence (“protagonist mindset”), adopt a learning mindset, and make “intelligent mistakes”. We also give personalized support to leaders, so that they create a context of “psychological safety”, where people feel comfortable sharing their perspectives and taking calculated risks.

To learn more, check out our paper
Agile Implementation Beyond Cosmetics at walkeadership.com.

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In summary

Digitalization represents a huge opportunity for large corporations to delight customers and achieve outstanding business outcomes. However, driving it successfully is not easy, which makes the IT function more strategically relevant than ever before.

CIOs can drive digitalization, but they also need to continue running IT day-to-day operations efficiently and reliably. This calls for a profound IT cultural transformation on three fronts: embracing a new relationship paradigm with the business, engaging the leadership team around a shared digital vision, and implementing Agile and new ways of working.

It's exciting, but not easy. It's challenging and conflictive at times. CIOs face a make-it-or-break-it moment: the IT function must be reinvented. Time is a crucial factor as digital technology is engulfing the business world voraciously and leaving in its wake those who were not up to the challenge. This is the moment for action.

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About WALK

WALK is a global consultancy focused on producing meaningful business transformation through leadership development and cultural change. Combining a team of strategy consultants, organizational psychologists, and leadership facilitators, WALK works with large organizations to ensure effective execution of their business initiatives. We do so by aligning people with strategy and empowering them to embrace a new leadership paradigm for the digital age. WALK's solutions include leadership development programs, alignment of executive teams, organizational engagement at scale, design and deployment of a digital culture, and implementation of new ways of working.

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