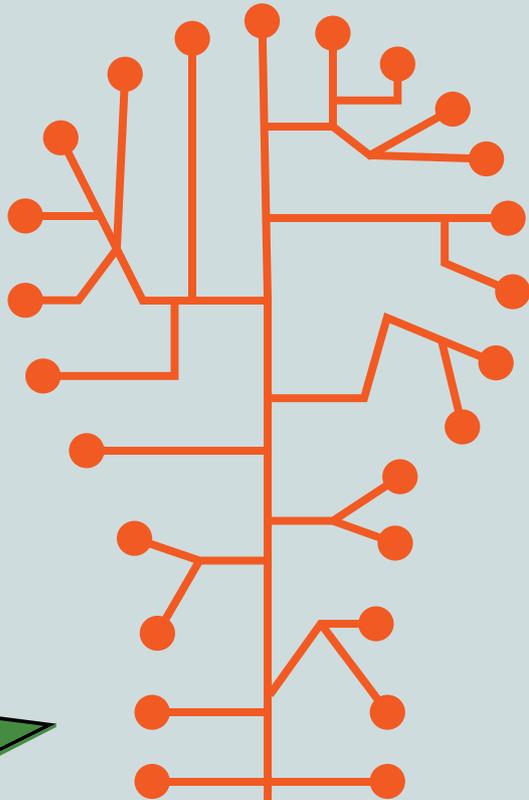


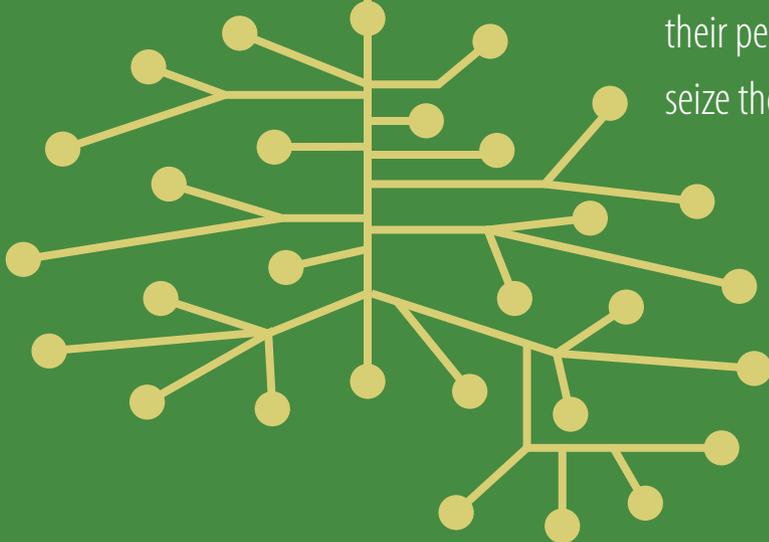
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The importance of a growth mind-set in a digital world



Companies that chase digital opportunities without first understanding whether their people have the requisite mind-sets to seize them will likely fail.



Over the past decade, digital technologies have become a crucial part of global business. And for good reason: digital technology has connected the world to an unprecedented degree, giving companies the ability to reach customers in new ways, automate customer interactions, and aggregate a previously unimaginable volume of information to better understand — and influence — individual consumer behavior. Moreover, digital technology has accelerated the pace of change in business, encouraging disruptive business models that quickly create new markets, and just as quickly threaten others. (Uber, for example, is barely six years old and has a valuation approaching that of General Motors.) Unsurprisingly, the digital dynamic has left many senior executives struggling to ensure that their organizations are as agile, responsive, and open-minded to change and growth as they need to be to survive — let alone thrive — in this environment. Put simply, the cultures of many organizations aren't prepared to change, or change fast enough, to seize the opportunities (or avoid the threats) that digital affords.

The divergent fortunes of Blockbuster and Netflix bring the value of an agile culture into sharp relief. Their story is one of two companies that essentially occupied the same DVD rental niche and ended up taking different digital paths — leading to very different results. In 2007 Netflix made the bold move to introduce video streaming, first as a complement to its DVD rentals and then as a core

offering. The move was met with some resistance, particularly by longtime customers; however, Netflix's executives understood that viewer habits enabled by digital technology (notably big data and mobile platforms) were evolving. Meanwhile, Blockbuster lacked the vision to foresee the impact of emerging technologies or a culture agile enough to change gears quickly. In 2005 the company's board blocked a proposed acquisition of Netflix for \$50 million. Just five years later, Blockbuster filed for bankruptcy after losing roughly \$1 billion. By contrast, Netflix now has more than 60 million subscribers in 50 countries and a market cap of more than \$40 billion. Further, it has continued to innovate, investing in content production and reaching new customers and markets with critically acclaimed original programming (and along the way disrupting yet another industry).

Digital will continue to open up new business vistas, yet harnessing its potential requires more than an understanding of technology. In short, companies that chase the technological trappings of digital without first understanding whether their people have the requisite mind-sets to embrace the opportunities for change and reinvention that digital brings will likely fail. By contrast, executives who look to shape the cultures of their organizations to react quickly to emerging trends and to be open to new ways of working and thinking will be more innovative and better able to spot market shifts and thus become more profitable and disruptive competitors in their industries. That translates into new, ahead-of-the-curve products, a thriving workforce, and new industry-altering business models that can outpace the competition.

How can organizational leaders embed a culture that promotes the agility required to support digital transformations? They must first recognize the characteristics of agile organizations and then seek

and support leaders who model these values. From healthcare to retail to telecommunications, we have observed companies successfully nurture an agile culture to capture a range of benefits.

Recognizing the characteristics of agile organizations

Agile companies are optimistic in the face of challenge, never rest on their success, and regularly seek to improve even when they are successful. While this culture is a boon for any business, it is particularly vital for companies seeking to reap the full benefits of investments in digital technologies. We have identified five fundamental characteristics of an agile organization:

- 1. Responsiveness to strategic opportunities and shifts.** Agile organizations create an environment of trust and individual empowerment that enables and rewards innovation and risk-taking.
- 2. Shorter decision, production, and review cycles.** By streamlining internal processes, companies can move more quickly to pursue opportunities and adapt to changing market conditions.
- 3. A focus on individual and organizational growth mind-sets.** The entire company, from the C-suite to the front line, must adopt a mind-set of continual growth and learning.
- 4. An emphasis on the voice of the customer.** Creating a customer-centric mind-set helps organizations to identify and respond quickly to consumer choices and behaviors rather than playing catch-up.

5. Interdisciplinary, collaborative project teams.

By eliminating siloed thinking and fostering collaboration both within teams and across functions, companies are able to build fruitful networks across the enterprise and also extend collaboration outward to communities as well as external stakeholders.

Collectively, these attributes give organizations the edge when it comes to integrating the kinds of digital technologies that advance strategy. Of course, embedding a high-performance culture and environment of agility doesn't happen instantly. Instead, it requires hard work and a coordinated effort from the entire organization, led by the CEO and senior executive team, over a sustained period of time. Companies should concentrate their energy and resources in four areas that together represent the principles for successful culture change.

Purposeful leadership from the top down

Senior executives cast long and influential shadows, so they must set the tone by putting the key drivers of the desired culture in place and in use. In this respect, the CEO must own, lead, and mirror the change; delegating this responsibility to others undermines the entire effort. Since becoming an agile organization is essentially an organizational change effort, clear and consistent communication and examples are critical to explain both why a new direction is required and what the organizational benefits of the new ways of working will be.

Personal change

Since true organizational agility relies on the actions of multiple employees working together in a coordinated manner, individuals need to assess their existing habits and alter their personal behavior to support the organization's digital goals. People rarely

change their thinking and behaviors because they are told to do so. Employees need to understand the reason their culture is changing, the “from” and “to” of the journey, and how their individual performance can support the company’s goals.

Broad engagement with energy, momentum, and mass

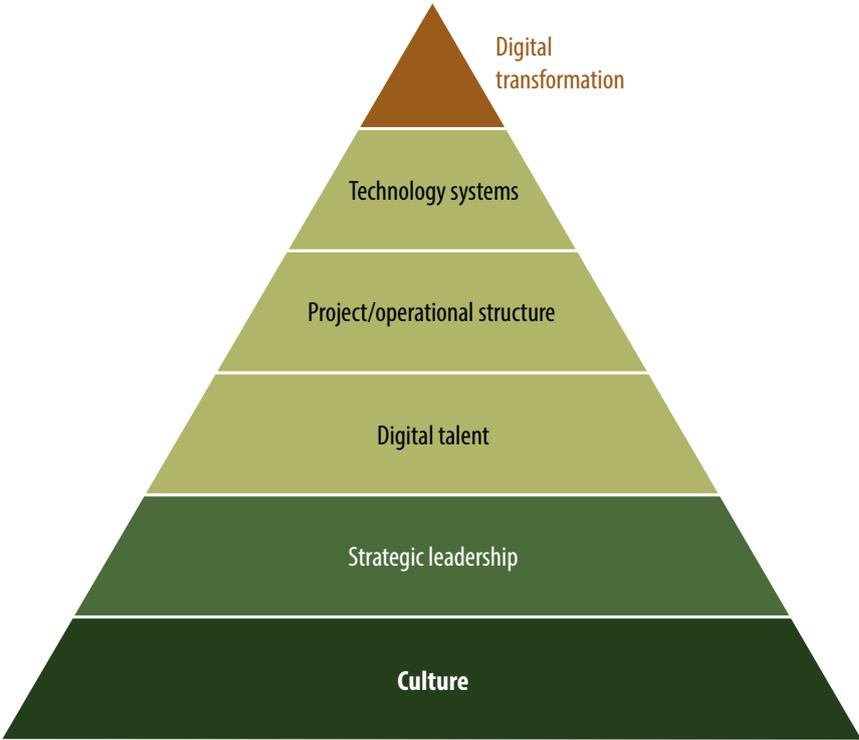
Measurably shaping a culture, particularly in large organizations, requires much more than disparate leadership development and change management processes rolled out over time. The companies with the most digital savvy recognize that excelling in the digital space is an organizational journey and a way of thinking, not simply a destination. This is true of organizational change too — leading a culture transformation is a journey, not an event or series of events. Culture change needs to be treated

as a strategy and the company’s culture viewed as a potential source of competitive advantage (see exhibit). Because cultures often resist what they need the most, the faster people are engaged in the process, the higher the probability the culture will shift positively.

Alignment of institutional practices

Shifting behaviors and mind-sets requires aligning people around the desired culture with a set of clearly articulated values and a strong organizational purpose. This in turn requires processes (and HR practices) to reinforce the principles, apply the lessons, and measure change. Even aspects such as the physical layout of office space can play a role in ensuring the new behaviors take root.

Exhibit: **Culture at the core**



Source: Senn Delaney, a Heidrick & Struggles company

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Agility's impact

When companies approach digital initiatives with a “culture first” mentality, good results tend to follow. Indeed, a number of companies in industries as varied as healthcare, retail, and telecommunications have successfully navigated the digital business landscape by emphasizing organizational change around agility. A closer look at their experiences offers lessons for other organizations looking to get more from their digital investments.

Healthcare: Miami Children's Hospital

Over the next decade, US hospitals will spend billions of dollars to upgrade their IT systems in alignment with new regulations on electronic health records and data coding. Miami Children's Hospital, with 650 affiliated physicians and a staff of nearly 3,000 clinical staff and frontline employees, stood to reduce costs, increase efficiencies, and continuously improve patient care by implementing numerous digital improvements and processes. However, CEO Dr. Narendra Kini also understood that a foundational step was needed before embarking on the major strategic and business initiatives that would harness these technologies.

The result was “The MCH Way,” the institution's defined culture of values and guiding behaviors. One of Dr. Kini's primary goals in transforming the culture was to quickly introduce employees at all levels of Miami Children's to the cultural values — starting with the senior leadership team. Within 18 months, 70% of the hospital staff and leaders had participated in the initial MCH Way culture-shaping program. Just as quickly, positive results were being seen in a number of critical areas, including patient, employee, and physician satisfaction and clinical outcomes.

According to Dr. Kini, “Right after we rolled out The MCH Way, I introduced the lean process improvement methodology. One of the things that became obvious was that in order for lean, which really changes the way you work, to be introduced, it was important for people to accept that change was necessary. The culture transformation and shifting mind-set was one part of the puzzle and lean another. Together they are powerful.”

Retail: Starbucks

In 2008 Starbucks was struggling: its share price had been nearly halved over the previous two years, the result of a company that had lost its innovative

spirit by growing so rapidly. When Howard Schultz rejoined the company as CEO that year, he sought to instill a sense of urgency, agility, and risk-taking into the culture. The strategy focused on strengthening the connection with customers by creating a “Starbucks experience,” and digital technology figured prominently in supporting the company’s plans. The challenge involved getting 150,000 employees to change their mind-sets. According to Schultz, Starbucks did this by going “back to start-up mode, hand-to-hand combat every day.”¹

Starbucks hired Adam Brotman in 2009 to head up its digital ventures, and his focus was to transition an organization that had earned its reputation for excellent service and a personal connection with consumers to one that embraced social media and other digital technologies to engage its customers. Brotman, who became chief digital officer in 2012, noted, “Everything we are doing in digital is about enhancing and strengthening those connections (with our customers) in only the way that digital can and only the way that Starbucks can.”²

According to Starbucks company data, the company’s deep cultural understanding of how digital technology could reinforce the company’s brand and customer experience helped lead to 94% of Facebook users being either a Starbucks “fan” or a friend of someone who is. In addition, the company reported that as of December 2014 it had more than 13 million mobile payment system users in the United States who now make more than 8 million mobile payments per week. More important, these efforts have translated to the bottom line: Starbucks saw its revenues increase from \$10.7 billion in 2010 to \$16.4 billion in 2014.³

¹ Claire Cain Miller, “Now at Starbucks: A rebound,” *New York Times*, January 20, 2010.

² Starbucks 2013 Annual Meeting of Shareholders Conference.

³ Starbucks Fiscal 2014 Annual Report.

Telecommunications: Proximus

Rising competition in the European telecommunications industry brought on by widespread digital disruption is pressuring companies across the sector. At Proximus (formerly Belgacom), leaders were seeking ways to restore the telecommunications firm to profitability, regain lost market share, and stay competitive and relevant to customers. To achieve this goal, executives developed a strategy that would change the company’s focus from basic technology offerings to the full customer experience. However, such a journey required employees to adopt a new growth mind-set that was open to new ways of thinking and doing business.

Proximus developed “Good to Gold,” a culture-shaping process that defined a common vision, purpose, and strategy to align the company. Three key values — agility, collaboration, and accountability — became its guiding principles, and by instilling them deeply into the organization, Proximus began generating more openness and trust across the business, breaking down silos and creating the “one company” growth mind-set necessary to meet its strategic and digital goals.



The potential of digital technologies is seemingly limitless, and companies of all stripes are racing to figure out how to use these tools to boost performance and reach customers. Yet the technology itself is only one part of the equation. Before embarking on transformative strategic changes tied to digital technologies, senior executives should take steps to create a solid cultural foundation of organizational agility. Companies

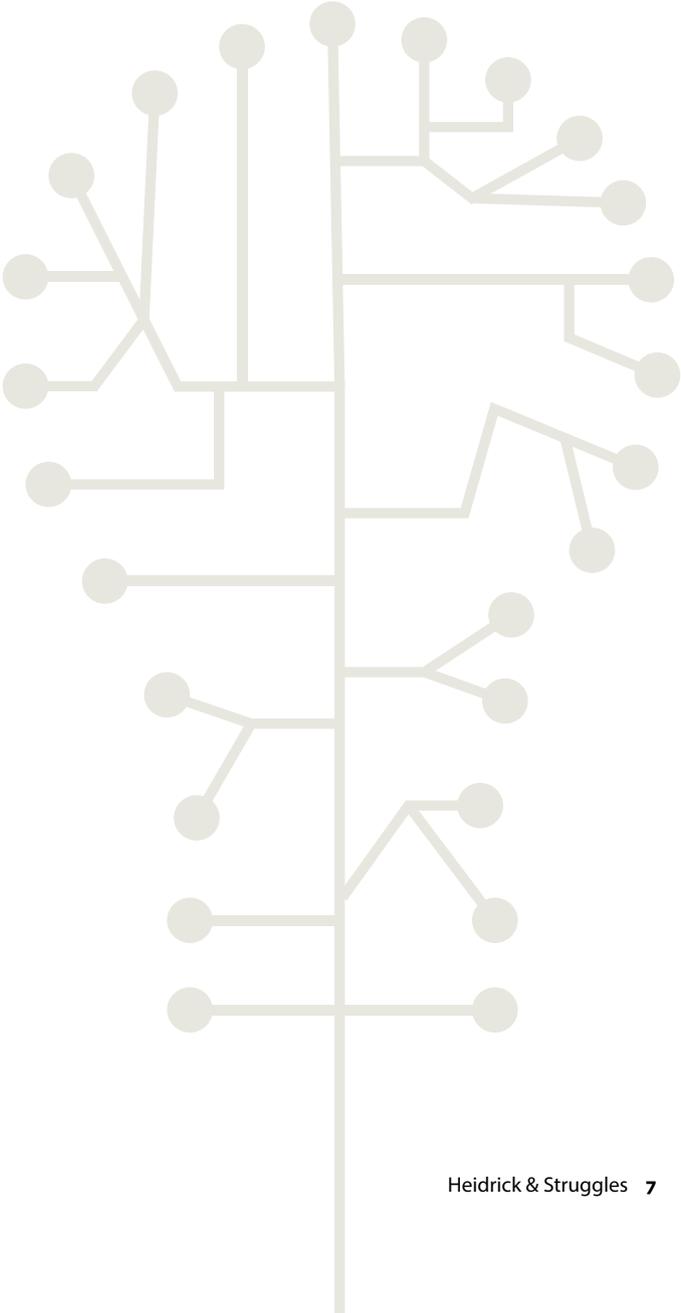
that do so are better prepared — at all levels of the organization — to approach the changing digital landscape not as a disruptive force but as a path to innovation and improved performance. When they do, they improve their ability to spot, and seize, game-changing digital opportunities. ■

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