

Today's CEOs Need Hands-On Digital Skills

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As business increasingly becomes digital and data-driven, many companies that once appeared to be built for success suddenly seem structured to fail. That's evident in the lackluster results that recent digital transformations have delivered; according to a recent BCG study, over 80% of companies accelerated their transformation projects last year, but 70% fell far short of their objectives.

Because digital transformations change every process — from strategy to execution — and alter every function, they're often challenging. To successfully pull one off, CEOs have to be digitally literate and get personally involved. This means understanding the nuances of the digital world and helping to shape product design, user experiences, and technology direction.

As Tom Siebel, founder of Siebel Systems, recently wrote in McKinsey Quarterly, "What I'm seeing now is that, almost invariably, global corporate transformations are initiated and propelled by the CEO. Visionary CEOs, individually, are the engines of massive change that is unprecedented in the history of IT — possibly unprecedented in the history of commerce."

Yet, it seems that many companies don't have the kind of CEOs, top management teams, and boards of directors they need to tackle digital transformations. According to a study of about 2,000 companies that was published in Sloan Management Review in March, only 7% were led by digitally competent teams; that is, a team where over half of the members are digitally savvy, with a firm understanding of how emerging tech will shape their company's success. Unsurprisingly, those companies outperformed the rest by 48% in terms of revenue growth and market valuation.

Fewer than 25% of CEOs and about 12.5% of CFOs in the sample could be regarded as digitally proficient, which comes as no surprise to me. Even among those leading the technology function, just 47% of CTOs and 45% of CIOs made the cut; the rest focus on IT infrastructure and back-office operations more than capturing value from digital technologies. Clearly, companies everywhere need to rethink the composition of their top management teams.

Company boards aren't that different either; another MIT study of around 3,000 companies with over \$1 billion in annual revenues showed that 76% of boards weren't digitally savvy — be it in terms of directors' backgrounds, the number with digital experience, or the manner in which boards interacted with executives on technology-related issues. Interestingly, companies with three or more digitally savvy directors on their boards reported 17% higher profit margins and 38% higher revenue growth than those with two or fewer directors.

Don't forget, boards exercise more control over legacy companies than they do over digital firms. The board of a Silicon Valley firm usually consists of tech company founders, venture capitalists, and seasoned executives from digital companies, who understand technology as well as the odds of success. That's why Amazon's Jeff Bezos could say, back in 1997, that Amazon would make bold, rather than timid, investment decisions; some would pay off while others would not; and "we will have learned another valuable lesson in either case." Unfortunately, that isn't something CEOs of legacy companies dare tell their boards or shareholders.

Not every CEO is born digital, by the way; most successful ones learn to understand technology on the job. Brian Chesky (Airbnb), Tim Westergren (Pandora), Sean Rad (Tinder), and Evan Sharp (Pinterest) are all non-tech entrepreneurs who set up digital giants. They focused on learning about their respective industries by looking at their technology strategy and some have even learned to program along the way.

Tech companies succeed when they are led by a digital holy trinity: A world-class Product Head, User Design Chief, and Chief Technology Officer. While each of these areas may be led by experts in those fields, the CEO in a digital firm plays an active role in determining product requirements, designing user experiences, and making technology choices. But, these roles are often buried deep in the corporate hierarchy in legacy companies. When they're located more than three layers deep in the organization (as they often are), the CEO loses sight of, and involvement in, those decisions. The managerial bureaucracy takes over, and product, technology, and user experience decisions will demand lengthy peer reviews and inter-departmental clearances. The result: consensus — which is the enemy of speed and uniqueness.

Not only do CEOs have to be digitally literate, but they also need to play the pivotal role of the change agent. Digital transformation is about so much more than adopting new technologies and processes. At its core, it's about overcoming inertia and resistance to changing the way people think and work. The CEO needs to lead from the front, inspire confidence in her vision, and rally the company to believe in what might appear to be a distant destination.

I can imagine legacy CEOs arguing that they can't afford to be hands-on, that they hire great people (often from tech companies), and that their role is to facilitate work. But that's the old world. The most successful digital leaders obsessively focus on products, user experiences, and technology. An obsession with detail characterizes Amazon's Jeff Bezos, Apple's Steve Jobs, Google's Sergey Brin and Larry Page and Tesla's Elon Musk. It's the same with non-tech companies led by digital leaders such as Nike's John Donahoe and Starbucks' Kevin Johnson. They all understand that focusing on change management, great products, and user experience isn't exactly living in the weeds; they're the seeds of the future.

As a CTO of a tech company based in Silicon Valley, I've met with the CEOs of some of the world's largest incumbents to help them modernize their digital and data infrastructure. At most of my meetings, I ask them how important digital technologies are to their business, and they assure me that no other priority comes anywhere close. But when I ask their CIOs or CDTOs (Chief Digital Transformation Officers) how much time the CEO spends focusing on technology and digital innovation, their voices drop to a whisper: "Less than they should."

If the CEOs of the world's most valuable companies can afford to spend time on product requirements, user experience, and technology, CEOs of legacy companies that are playing digital catch-up can hardly afford not to do the same.

With every business turning into a digital and data business, every CEO needs to lead his or her company's digital transformation personally. Nothing could hurt a company more in the future than the mistaken notion that becoming a digital business is simply the CTO or CIO's problem.

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