Leaders 2020

The next-generation executive: How strong leadership pays off in the digital economy

OXFORD ECONOMICS

Introduction

Strong leadership pays dividends in the digital economy, where continuous innovation, rapid decision making, and a global mindset are essential to success. Oxford Economics surveyed more than 4,100 executives and employees, around the world and from diverse industries, during the second quarter of 2016. We found that companies that get digital leadership right perform better in the marketplace and have happier, more engaged employees.

These high-functioning organizations—we call them Digital Winners—have executives who communicate a company-wide digital strategy, keep management and worker skills up to date, and streamline organizational structure. Four leadership imperatives emerged from our analysis of this elite group:

■ **Make "digital" more than a buzzword**. Most companies have work to do on this front. Barely half of executives say their senior leadership is highly proficient at using technology to achieve competitive advantage, facilitating innovation and collaboration, or managing a global or diverse workforce; employees take an even dimmer view of executive skills.

■ **View diversity as an investment.** Companies reporting higher revenue and profitability growth are more likely to say diversity has a positive impact on financial performance, and that leadership recognizes its value. However, diversity growth among mid-level and senior executives is slow compared with change among the general workforce.

■ **Listen to Millennial executives.** The rising generation of young executives is skeptical that mid-level and senior managers have the skills to drive digital transformation. They are more focused on diversity than older executives, and less impressed with efforts to build digital skills and increase employee satisfaction.

■ **Invest in your workforce.** Employees of Digital Winners are more likely to express loyalty to their organization, team, and manager—and to say their manager is critical to engagement. A great majority of very satisfied employees say they routinely go beyond the minimum requirements of their jobs.

In our previous large-scale study, _Workforce 2020_, we warned that businesses were headed over a "leadership cliff" if their executives did not update and upgrade their abilities. Two years later, the edge of the precipice is in sight: demands on management have only intensified, and the pace of change makes skills obsolete faster than ever. This paper highlights the ways some companies are avoiding the cliff's edge and successfully navigating digital transformation.

Meet the Digital Winners

Oxford Economics identified a set of characteristics and practices (outlined in the graphic) that define the best-managed companies. We call this group of high performers Digital Winners. Our company-level analysis is built on the assessments of individual executives who rated the skills and strategies of management across their organizations. In short, Digital Winners are companies with executives who are better prepared for the digital economy.

Digital Winners are spread fairly evenly across industries, regions, and functions. Some cohorts do stand out: the technology sector (18%) and finance function (24%) both make up a slightly larger percentage of Digital Winners than other groups.

It pays to be a Digital Winner. These companies:

■ are 38% more likely than others to report strong revenue and profit growth (76% vs. 55% of others);

■ have more mature strategies and programs for hiring skilled talent (85% vs. 64%), building diversity (56%, vs. 48%), and succession planning (72% vs. 50%); and

■ have employees who are more satisfied (87% vs. 63%) and more likely to stay in their jobs if given the chance to leave (75% vs. 54%).

Only 16% of the companies surveyed qualify as Digital Winners leading in transformation. At the vast majority of organizations surveyed, digital transformation is just beginning. Organizational change starts with individual action. To become Digital Winners, companies should focus on the skills of their executives and the culture they create—and make sure incremental progress in these areas maps back to an overall digital strategy.

How executives drive digital transformation

Embrace digital technologies
■ Execute on a company-wide digital vision
■ Embed technology in all aspects of the organization

Streamline decision making
■ Make data-driven decisions in real time
■ Distribute decision-making across the organization

Flatten the organization
■ Focus on reducing complexity and bureaucracy
■ Offer the latest technology to all employees

Build a digital workforce
■ Improve digital proficiency among managers and employees
■ Emphasize transformation readiness and strategic use of technology

Embrace digital technologies
Streamline decision making
Flatten the organization
Build a digital workforce

DIGITAL WINNERS

The leadership opportunity

In the emerging digital economy, rapid change is a constant, as knowledge work matures into digital work, and decisions are driven by data and made in real time.

But most companies are falling short on these fronts. We asked executives to rate themselves on a long list of skills related to digital transformation, and found that many are not measuring up to the demands of the digital economy. Their employees are even less impressed with management.
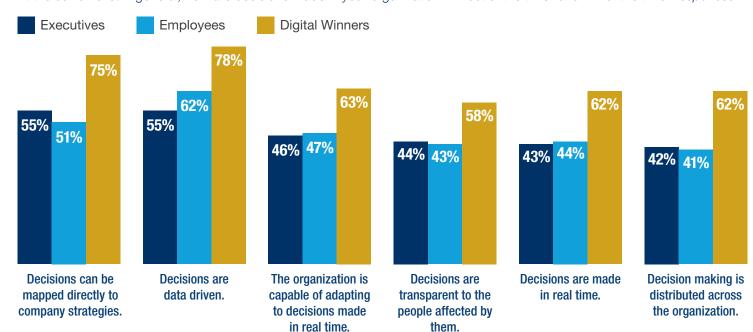
What could be done better? Only about half of executives and employees say leadership is proficient in managing a diverse workforce. Facilitating collaboration, making full use of technology, and motivating employees are also areas in need of improvement.

Old-school decision-making is a particular problem. Business today requires data-driven decisions to be made at high speed, which means empowering people across an organization to make tough calls without approval from top management. Most companies are not there yet.

Our Digital Winners group is defined in part by its ability to make data-driven decisions in real time. But their capabilities expand to other areas: they are 50% more likely to say they map decisions to strategy (75% vs. 51% of other companies) and can adapt to decisions made in real time (63% vs. 42%). Executives at Digital Winners know they are on the right track, as they also express more confidence in the capabilities of senior management.

Decisions made the old-fashioned way

At the senior level/in general, how are decisions made in your organization? "Most of the time" and "All of the time" responses

Legend: ■ Executives ■ Employees ■ Digital Winners

	Executives	Employees	Digital Winners
Decisions can be mapped directly to company strategies.	55%	51%	75%
Decisions are data driven.	55%	62%	78%
The organization is capable of adapting to decisions made in real time.	46%	47%	63%
Decisions are transparent to the people affected by them.	44%	43%	58%
Decisions are made in real time.	43%	44%	62%
Decision making is distributed across the organization.	42%	41%	62%

Diversity pays off

Male and female respondents have similar views on digital leadership, except in one critical area: diversity. Female executives and employees are less impressed with diversity programs in their organization and less likely to say their organization fills roles from within.

Among Digital Winners, female executives are much less likely to say their company has effective diversity programs (30%, vs. 49% of male executives).

Today's workforce is more global and diverse than ever before. This creates an enormous opportunity for businesses that are able to cultivate the skills and ideas of employees with a broad range of backgrounds, perspectives, and experiences. We found that diversity has increased substantially among the general workforce over the past three years. But change has been slower to come to mid-level management, and is even less evident among senior executives and corporate boards.

Our survey data highlights some of the efforts industries are making to overcome homogeneity in the workforce and board room. Technology companies, for example, are more likely than some other sectors to say diversity has increased among mid-level leadership over the past three years (44%)—possibly an attempt to change this male-dominated field. Financial services executives are most likely of any industry to report increases in senior-leadership diversity (43%).

Despite such efforts, not all groups feel their concerns are being heard. Both male and female executives are unimpressed with the state of diversity programs, but women are even less likely to say current programs are effective (30%, vs. 38% of men).

Women executives also are less optimistic about the state of diversity programs in three years, and are less likely to say their company fills roles from within; female employees share their skepticism about succession planning (45% vs. 52%).

It is essential to understand diversity as a business issue—and an important value to younger executives. Digital Winners are more likely to see growing diversity in the workforce and mid-level management, although greater diversity at senior levels remains a work in progress at these companies too. They also are more likely to recognize diversity's positive impact on culture (66% vs. 47%) and financial performance (37% vs. 29%). And although we cannot make definitive arguments about cause and effect, Digital Winners have a higher proportion of female employees than other companies—although even among Digital Winners, female respondents are much less likely to say their company has effective diversity programs (30%, vs. 49% of male executives).

The higher you go, the less diverse things get

Over the past three years, how has diversity in your organization changed for the following groups? "Increased somewhat" and "Increased significantly" responses; Executive responses

General workforce

67%

Mid-level leadership

40%

Board/Senior leadership

34%

Millennial executives are impatient for change

Listening to what young executives have to say may be a shortcut to digital leadership—as long as the experience of their older peers is not ignored in the process.

A new generation of executives is moving up through the corporate ranks. Millennials already make up the largest group in the workforce, and they hold nearly 20% of executive positions. These young managers are eager for faster progress on digital transformation, but lack confidence in the digital leadership skills of their elders.

For example, Millennial executives are far less likely than other managers to say senior leadership is proficient at internal collaboration, managing retention, and inspiring employees. They also question the human-capital strategies deployed in their organizations.

These young executives have issues with organizational culture, too. They are less likely than older executives to say leadership gives ample feedback (62% vs. 74%), that employee satisfaction is valued (59% vs. 66%), and that complexity and bureaucracy are discouraged (56% vs. 64%). Millennials take a more negative view of talent-development strategies for digital skills, and are more focused on diversity and its benefits.

Listening to what young executives have to say may be a shortcut to digital leadership—as long as the experience of their older peers is not ignored in the process. Striking this balance requires generations to listen to each other—something our _Workforce 2020_ program showed cannot be taken for granted— and to recognize that the pace of change means that Millennials will not be the youngest people at the conference table much longer.

Millennial executives find senior leadership wanting

How proficient is your organization's senior leadership in the following areas? "Highly proficient" responses

■ Millennial executives　■ Non-millennial executives

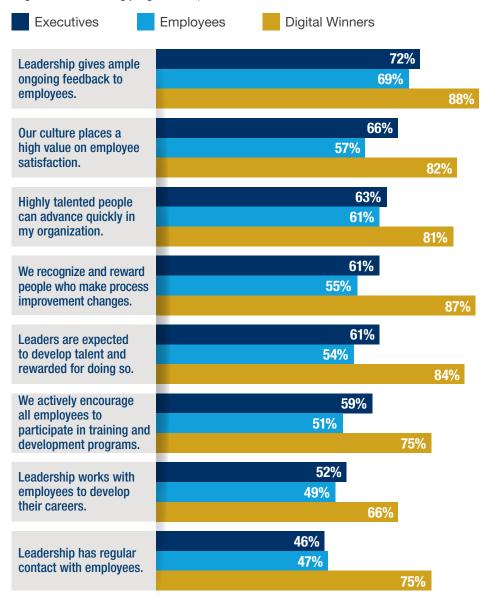| Area	Millennial	Non-millennial
Facilitating innovation	42%	61%
Facilitating collaboration outside the organization	42%	61%
Facilitating collaboration inside the organization	39%	61%
Using technology to achieve competitive advantage	37%	60%
Navigating a changing business environment	37%	57%
Using Big Data/analytics to plan for the future	42%	55%
Managing employee retention	37%	55%
Managing a diverse workforce	39%	54%
Managing a global workforce	38%	53%
Inspiring and motivating employees	35%	51%

Digital Winners have more engaged employees

Effective digital leadership does more than drive financial performance—it also creates healthier cultures.

We cannot untangle cause and effect, but we do know that satisfied employees are more enthusiastic about leadership's capabilities in a wide range of areas. The most satisfied employees work for companies where decisions are made quickly, complexity and bureaucracy are discouraged, competitive compensation and other benefits are widely available, leadership understands the value of diversity, and management is proficient in a broad range of areas—qualities that overlap significantly with our definition of Digital Winners. They say management effectively facilitates collaboration and is more likely to use collaboration platforms to gather employee feedback.

Employee satisfaction pays off in more ways than one. Our research shows the happiest employees are far more likely to routinely go above and beyond the minimum requirements of the job, and are less likely to leave their company if given the opportunity.

Engagement follows the leaders

Thinking about the top-down message from senior leadership, to what extent do you agree with the following statements about your organization's culture? "Agree" and "Strongly agree" responses

Executives ■ **Employees** ■ **Digital Winners** ■

Leadership gives ample ongoing feedback to employees.
- Executives: 72%
- Employees: 69%
- Digital Winners: 88%

Our culture places a high value on employee satisfaction.
- Executives: 66%
- Employees: 57%
- Digital Winners: 82%

Highly talented people can advance quickly in my organization.
- Executives: 63%
- Employees: 61%
- Digital Winners: 81%

We recognize and reward people who make process improvement changes.
- Executives: 61%
- Employees: 55%
- Digital Winners: 87%

Leaders are expected to develop talent and rewarded for doing so.
- Executives: 61%
- Employees: 54%
- Digital Winners: 84%

We actively encourage all employees to participate in training and development programs.
- Executives: 59%
- Employees: 51%
- Digital Winners: 75%

Leadership works with employees to develop their careers.
- Executives: 52%
- Employees: 49%
- Digital Winners: 66%

Leadership has regular contact with employees.
- Executives: 46%
- Employees: 47%
- Digital Winners: 75%

Conclusion

The pace of change shows no sign of slowing down, and organizations that do not continually update their approach to leadership risk falling behind. What steps should companies take to become Digital Winners?

- **Communicate a company-wide digital vision.** The best leaders not only have a strategy for going digital—they are sharing it with employees across the organization.

- **Continuously update executive and employee skill sets.** Everyone, from the ground floor to the executive suite, needs digital skills and the ability to learn new ones quickly.

- **Flatten the organization.** Leadership needs to empower managers and workers across the enterprise to make decisions quickly, without bureaucratic bottlenecks.

- **Emphasize diversity.** Companies that cultivate a diverse workforce and take a broad range of employee perspectives into account are better poised to succeed in a global economy—and to keep employees happy and engaged.

- **Listen to young executives.** The growing cohort of Millennial executives has a strong vision for leadership in the digital economy—taking their advice may be a shortcut to digital transformation.

To learn more, visit **www.successfactors.com**.

About the research

Oxford Economics surveyed more than 2,050 executives and 2,050 non-executive employees in 21 countries and across multiple industries during the second quarter of 2016. The executives surveyed include both C-levels and their direct reports; roughly half of the executive sample is from the C-suite. Employee roles range from entry-level to line-of-business management.

Respondents represent companies headquartered around the world, with a range of sizes (measured by both revenue and employee count).

Of the employees we surveyed, 50% are Millennials aged 18–35—the percentage expected to make up the workforce by 2020; the executive sample also includes a meaningful number of Millennial respondents (17%). Both senior executives and employees represent a broad range of functional areas, including HR, finance, IT, sales, marketing, procurement, and product development.
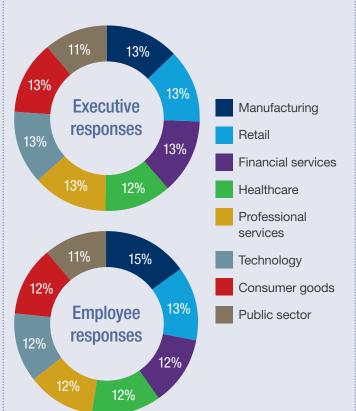
Respondents by region

In what country is your organization headquartered?

Executive responses: APJ 37%, Latin America 15%, North America 24%, EMEA 24%

Employee responses: APJ 37%, Latin America 15%, North America 24%, EMEA 24%

Legend: APJ, Latin America, North America, EMEA

Respondents by industry

What is your organization's industry segment?

Executive responses: Manufacturing 13%, Retail 13%, Financial services 13%, Healthcare 12%, Professional services 13%, Technology 13%, Consumer goods 13%, Public sector 11%

Employee responses: Manufacturing 15%, Retail 13%, Financial services 12%, Healthcare 12%, Professional services 12%, Technology 12%, Consumer goods 12%, Public sector 11%

Legend: Manufacturing, Retail, Financial services, Healthcare, Professional services, Technology, Consumer goods, Public sector

Respondents by function

What best describes the functional group or department in which you work?

Executive responses: HR 16%, Finance 19%, IT 15%, Sales 13%, Marketing 16%, Procurement 12%, Product development 10%

Employee responses: HR 16%, Finance 16%, IT 16%, Sales 13%, Marketing 14%, Procurement 12%, Product development 12%

Legend: HR, Finance, IT, Sales, Marketing, Procurement, Product development

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