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‘Transformer in chief’: The new chief digital officer

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The CDO role is changing dramatically. Here are the skills today’s world demands.

In the alphabet soup that is today’s crowded C-suite, few roles attract as much attention as that of the chief digital officer, or CDO. While the position isn’t exactly new, what’s required of the average CDO is. Gone are the days of being responsible for introducing basic digital capabilities and perhaps piloting a handful of initiatives. The CDO is now a “transformer in chief,” charged with coordinating and managing comprehensive changes that address everything from updating how a company works to building out entirely new businesses. And he or she must make progress quickly.

Given these demands, it’s not surprising that the number of people in CDO roles doubled from 2013 to 2014 and is expected to double again this year.¹ We find that companies bring in a CDO for two primary reasons. The first is when they need to approach the complex root causes that must be dissected, understood, and addressed before any substantive progress on digitization can be made. And the second is when the CEO realizes the organization can’t meet the primary challenge of creating integrated transformation within its current construct (see sidebar, “Do you need a CDO?”).

In fact, the true measure of a CDO’s success is when the role becomes unnecessary: by its very nature, a high-functioning digital company does not need a CDO (however, it may want its former CDO to be the CEO). Of course, the vast majority of organizations are not yet at that point. And while there are numerous actions companies can and should take to help these executives work themselves out of a job—such as providing sufficient resources and active CEO support—this article focuses on five areas CDOs themselves must get right if their organizations are to successfully transition to digital.

1. Make digital integral to the strategy

Digital isn’t merely a thing—it’s a new way of doing things. Many companies are focused on developing a digital strategy when they should instead focus on integrating digital into *all* aspects of the business, from channels and processes and data to the operating model, incentives, and culture. Our analysis of how companies with a high Digital Quotient (DQ) operate shows that 90 percent of top performers have fully integrated digital initiatives into their strategic-planning process.²

¹ Karl Greenberg, “Chief digital officers grow in ranks and prominence,” *MediaPost*, May 7, 2015, mediapost.com.

² See Tanguy Catlin, Jay Scanlan, and Paul Willmott, “Raising your Digital Quotient,” *McKinsey Quarterly*, June 2015, mckinsey.com.

Do you need a CDO?

Companies looking to begin or continue their digital transformation will benefit from considering five questions to help determine whether a CDO is necessary:

- Is the marketplace where I compete undergoing—or vulnerable to—significant changes that are reshaping value?
- Is my company ready to move beyond basic digital experiments and embark on a fundamental and integrated transformation of the business?
- Is my company ready to signal its digital-transformation efforts to audiences both internal and external?
- Do we need a disruptive perspective from someone who can objectively and credibly challenge the status quo with a “digital first” mind-set?
- Does the current leadership team have the capacity to steward the digital transformation and support this new role?

Getting the strategy right requires the CDO to work closely with the CEO, the chief information officer (CIO), business-unit leaders, and the chief financial officer; the CDO also needs to be an active participant in and shaper of the strategy. An important foundation for CDOs to establish credibility and secure a seat at the strategy table is providing detailed analysis of market trends and developments in technology and customer behavior, both inside and outside the sector.

Yet CDOs can't stop there. They need to bring a bold vision: 65 percent of companies that are “digital leaders” in our DQ analysis have a high tolerance for bold initiatives; among average performers, 70 percent of companies don't see support for risk taking. This vision could include starting new businesses, acquiring technologies, or investing in innovations—one CDO we know made it his mantra to drive agile as a new software-development methodology for 40 percent of the company's projects. No matter how it's branded, CDOs need to be known within their organization for something that is courageous, new, and adds value.

In addition, CDOs must be specific about their goals. One international publishing house, for example, set a target of generating 50 percent of its revenue and profit from digital media within ten years, and it wound up doing so in almost half that time. Similarly, several banks that set the objective of increasing digital-channel sales to more than 50 percent are seeing that specific and measurable goal rally the organization.

2. Obsess over the customer

While most companies say they know their customers, CDOs must make it a driving passion and core competency of the organization. With technology and customer habits changing so quickly, developing a deep and detailed view of customer behavior across all channels provides a common reference point in any business discussion and arms the CDO to challenge the status quo and make changes. For example, one CDO used the concept of customer journeys and big data mapping of these paths to show her peers where opportunities and pain points existed—and, in doing so, destroyed several myths.

This type of analysis is critical, to be sure, but an equally important part of the CDO's job is communicating how essential the customer is to the organization. One CDO created clear and visually compelling dashboards on the customer journey and made a habit of consistently referencing them in meetings and when making decisions. Another set up a digitally enabled “war room” with real-time reporting on several key digital metrics, which soon will be piped to the tablets and smartphones of other C-suite executives. Yet another CDO sends regular company-wide emails highlighting customer breakthroughs, insights, and “voice of the customer” anecdotes. Such actions can help the business start to think more specifically about the customer so that everyone approaches all issues with a single crucial question: How will this affect the customer?

Digital capabilities ultimately provide an important foundation for improving the customer experience. It's up to the CDO to identify those functions where digital is critical: for example, investing in automation capabilities to rapidly respond to customer interactions, developing sophisticated reporting and analytics capabilities to interpret customer needs, building innovative interfaces to gather customer data (for example, an alternative payment method), and creating mechanisms to deliver content and offers across all relevant channels. While the CDO will need to work closely with marketing and IT leadership, he or she should define the customer-experience journey and identify the requirements for developing and then supporting a dynamic system that is constantly learning and evolving.

3. Build agility, speed, and data

CDOs can build strong foundations for change by creating a “spirit of digital” throughout the organization. That could include setting up coding days for the board or holding company-wide hackathons—one company we know even had drones flying around the atrium of its headquarters. Core to building this spirit, however, is increasing the “metabolic rate” of the organization. That starts with changing basic habits, such as having strategy leadership meetings weekly or even biweekly to help ingrain the idea of moving at a faster pace.

CDOs must look at how the organization operates and find ways to inject speed into processes. In some cases, it could be as straightforward as working with IT to automate existing development processes. But in others, it will require radically changing how the company works, such as setting extremely aggressive goals—as few as six weeks—for getting

a product to market. Some CDOs do this by setting up “digital factories,” which are cross-functional groups focused on developing one product or process using a different technology, operational, or managerial methodology from the rest of the company. Embedding these factories in business units has the advantage of spreading the new culture and making the digital-factory approach the norm.

Managing a portfolio of these types of initiatives requires leaders to be decisive. If the data show a prototype doesn't work, the CDO must be ruthless about killing the project, incorporating anything learned from the experience, and moving on. On the other hand, CDOs should establish flexible budgeting processes so that projects that show signs of success can get resources to scale quickly.

4. Extend networks

In a digital world, threats often do not come from established competitors but rather from innovative technologies that enable new businesses, start-ups that undermine established business models, or new developments outside the way the company defined its competitive space. For example, one of the big trends in the payments sector is the merging of commerce and payments functionalities in the same app—so, being able to pay for your restaurant meal using the OpenTable app you used to reserve your table.

Successful CDOs are keenly aware of such trends. They build networks of people, technologies, and ideas far outside of their company, constantly scanning the small-business landscape to identify possible acquisitions or partners that can provide complementary capabilities. Some CDOs spend as much as 50 percent of their time working with external partners to build effective working relationships that take advantage of every organization's capabilities. To help bring these outside voices into the organization, many CDOs establish advisory boards of start-up leaders or create “challenger” boards of people with digital experience and expertise to review corporate initiatives and strategies. At a more pedestrian level, they regularly invite technologists or entrepreneurs to team lunches.

Building an internal network is just as important because company systems and technologies need to be flexible enough to work with outside parties. In particular, CDOs need to work with IT leaders to develop application programming interfaces and cloud-based architecture that works with a broader ecosystem of providers. Some CDOs realize too late that functions such as compliance, finance, human resources, legal, procurement, and risk also need to change to support a more digitally focused company. At one company, for example, an effort to accelerate time to market is in full swing, but procurement still insists it requires six months to approve a vendor. Changing such supporting processes isn't easy—functions often have good reasons for why processes are undertaken as they are. But brokering compromises and testing new ways of operating that are necessary to make progress will be virtually impossible if a CDO doesn't build internal networks early and engage with leaders across the business.

5. Get stuff done

CDOs are ultimately judged not by the quality of their ideas but by their ability to lead different types of teams, guide projects, overcome hurdles, and deliver integrated change.

Getting stuff done often requires hard-nosed negotiating skills. Consider the CDO at a financial-services company who wanted to stop business units from draining IT resources on independent projects that didn't align with the overarching strategy. The CDO worked closely with the CIO and agreed to use her new budget to fund some of his projects; she also helped him retain and motivate key people by staffing them on important digital initiatives (which also assured him visibility into what she was doing). In return, the CIO agreed to stop supporting initiatives that the CDO didn't explicitly approve. Both won in the end, and they now have a close working relationship.

A new CDO will benefit from the early establishment of near-term goals that can yield quick wins and wow moments that help build enthusiasm and momentum. Some CDOs find that building the marketing-commerce function is a great way to quickly demonstrate value, while others embark on accelerated cost cutting by automating core processes. It pays to define how success is measured, whether it's tracking key digital and business metrics—such as digital-media revenue as a percentage of total revenue—or creating a full digital profit-and-loss statement (or both). To be meaningful for the business overall and to build credibility, key performance indicators must be aligned with those used by established business units.

Within his first month, for example, the new CDO at one financial-services company defined clear, discrete digital initiatives; developed a long-term vision in partnership with an anchor business-unit leader; and got his budget approved. Within six months, he hired a handful of key employees, launched several initiatives, identified gaps in the organization, and pulled together teams to fill them. A year and a half into the job, he was able to claim some solid wins and moved from a “shadow” profit and loss to an explicit one.

Of course, the projects CDOs commit to must be core to the business—such as developing new revenue streams, cutting costs, or getting to market faster—and not peripheral experiments, which could end up marginalizing their efforts. We've actually found it works best when a CDO's budget is funded through the efficiencies and growth that he or she drives. In addition, we believe that budgeting is critical to ensuring that things get done. Successful CDOs not only time their actions to maximize budgetary flexibility but also change how funding is allocated. One CDO shifted from annual approval of large capital expenses for IT to a more venture capital-like monthly cycle, ensuring he could get more projects funded and launched. This approach also served to maintain funding momentum, with small bites over the course of the year predicated on demonstrated effectiveness.

Defining characteristics of the new CDO

When hiring a CDO, people often agonize over finding someone with experience that is just right. Yet we've found it's the ability to lead transformation across an organization that is the true indicator of likely success in the role, and that requires a combination of hard and soft skills. Hard skills include the ability to articulate a strategic vision, the means to take on problems by identifying root causes across functions and making the tough decisions necessary to resolve them, experience in "pure play" digital and larger company transformations (typically in the consumer and technology sectors), and the managerial ability to lead and see programs through to fruition.

The importance of soft skills should not be understated: some CDOs estimate they spend 80 percent of their time building relationships. In our experience, successful CDOs have the patience to navigate the complex organizational structures of large businesses; additionally, they collaborate to get buy-in across functions and are able to diplomatically challenge the status quo and solidify relationships with a broad group of people. They also demonstrate leadership and charisma that excites the organization to drive change forward.

Of course, companies would be lucky to have executives in any function with this skill set. But driving organization-wide change *is* different from the mandate for other senior roles. A recent Russell Reynolds Associates survey found that CDOs are meaningfully different from other senior executives across five categories: they are on average 34 percent more likely to be innovative and 32 percent more likely to be disruptive, and also differ with regard to determination, boldness of leadership, and social adeptness.³ Leading an organizational transformation is messy work that requires masterful social skills to implement digital initiatives that create disruption by their very nature. Indeed, a CDO's strong bias for action, bold thinking, and high tolerance for risk requires someone who can also manage the ruffled feathers, bruised egos, and flaring tempers that are common fallout from his or her activities.



³For more on this survey, see "Productive disruptors: Five characteristics that differentiate transformational leaders," Russell Reynolds Associates, August 12, 2015, russellreynolds.com.

As the digital age scrambles the traditional organizational structure, CDOs must not only launch the organization on its digital trajectory but also help it fundamentally evolve. The role requires a "bifocal" approach: achieving the near-term imperative of getting things moving quickly, while setting in place the longer-term conditions of success so the organization can compete digitally. Those CDOs that succeed will truly have earned their place in the already-crowded C-suite. ■

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