

THE ROLE OF STRATEGIC LEADERSHIP IN DIGITAL TRANSFORMATION PROCESS

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ABSTRACT

Digital technologies are being embraced by organizations by an accelerating pace. However, despite widespread efforts to capitalize on digitalization process few companies can actually boast of concrete results. There is an emerging strand of literature that assigns success or failure of digitalization process to organizational leadership. This study tested this theory by interviewing fifteen business leaders in Saudi Arabia. In short, the outcome of the study is the conclusion that leadership does matter in digital transformation process. Successful organizational leaders are able to create a strong vision, align and mobilize employees for change to embrace the new ways of doing business. Some practical recommendations are made based on study outcomes and existing literature on leading digital transformation.

1. INTRODUCTION

The speed at which digital technologies and their use transform organizations and the way they conduct business has been accelerating, and there is little doubt that this process of change is going to continue (Brynjolfsson, 2014; Demirkan, Spohrer and Welser, 2016). This is why investments in these technologies have become common. With digitalization, leaders not only seek to improve specific areas of organizational work but sometimes to find new ways of conducting operations and delivering services. However, it seems that the promise of digital transformation is rarely realized in practice. A recent survey of organizational leaders across the globe and various industries conducted by *MIT Sloan Management Review* showed that despite firm belief in digital transformation for improving organizational performance, the majority of respondents did not achieve the expected results and were frustrated by the slow pace of transformation (Fitzgerald et al., 2013). Similarly, a global survey of business leaders by *Harvard Business Review* analytics team showed that only few excel in digital leadership and management although for such companies higher average revenues and market leadership were a norm (Whitehurst, 2015).

The results of these surveys are not surprising. According to Laurent-Pierre Baculard (2017), more often than not, success in digital transformation depends on leadership just as much as on technological savvy. While the literature bridging the fields of digital transformation and leadership is limited, the key scholars of digitalization seem to agree that it is one of the major opportunities and challenges for organizational leaders today (i.e., Collin et al., 2015; Rogers, 2016; Sheninger, 2014; Westerman et al., 2014). This paper is a report on the study that sought to identify how and why organizational leaders succeed or fail in digital transformation. We interviewed 15 business leaders in Saudi Arabia on the subjects covering opportunities and challenges of digital transformation and what roles they assign in this process to themselves.

2. THE PROMISE OF DIGITAL TRANSFORMATION

The terms “digitalization” and “digital transformation” are often used interchangeably today. They both identify a trend “fundamentally changing existing value chains across industries and public sectors” and enables “major business improvements” (Collin et al., 2015, p. 29; Fitzgerald et al., 2015, p. 2). From an organizational perspective, digitalization assumes reshaping processes by means of integrating digital technologies and tools. Businesses, both private and public, that are able to do this effectively often find means to improve their effectiveness, customer responsiveness, achieve operational efficiencies and innovativeness. Researchers and practitioners identify the following benefits of digital transformation:

- *New service offerings and business models.* Examples are Uber, Airbnb, new forms of online banking, social networks, crowdfunding initiatives etc.
- *Automation of some common activities.* This may come through artificial intelligence prototypes such as Apple Siri, Google Now, and IBM Watson; hardware hubs such as Amazon Echo and Google Home; or customer interaction tools such as Zendesk, Linkit, and Brandfolder
- *Improving employee productivity and creativity.* Such improvements arise from faster decision making, service speed and response, stronger connectivity, and higher levels of collaboration.
- *Enhancing customer experiences.* This comes from creation of new service system types and improving value propositions of the existing services. Some obvious examples include online broker and payment systems, e-auctions, applications markets such as Google Play and iTunes, and others.
- *Improving operations efficiency and accuracy.* Automation of transport, logistics, production processes, and product/service delivery systems substantially improve quality, decrease time of delivery, and reduce costs
- *Personalization of services and products.* Digital technologies enable fast response to changing customer needs and preferences. They also allow for integrating customers in the process of service creation and delivery (Berman, 2012; Demirkan et al., 2016; Kahre et al., 2017).

The respondents in our survey largely confirmed strong expectations about digitalization of their businesses. Specifically, most expectations were related to improvements in customer connectivity and relationships, streamlining of operations, and having access to critical information for faster market responses. The majority of business leaders in our survey (10 in total) saw digital tools as “powerful analytical tools” and “decision making enablers.” Seven respondents stated that they looked for decreasing decision making timeframes and improving information processing. Seven more mentioned that digitalization should help their organizations to build new modes of interaction with customers and create new ways of offering services. Some respondents were specific in mentioning particular technologies that they believed had great potential for their businesses. Among them are cloud computing, social media, smart digital devices, and to some extent artificial intelligence.

At the same time, the area where the most notable benefits from digitalization were reported was customer service. Specific examples mentioned were improved customer experience and using social media to both promote products and keep in touch with the core customer base for quick responsiveness. Serious improvements in customer communications were mentioned by six respondents while four more admitted that digital tools “helped” them in better understanding the needs of their customers. Moreover, three respondents claimed that digital technologies have contributed to their revenue increase and expansion of customer base. Overall, there was a clear message that business leaders expected a wide range of benefits from digital transformations of their businesses. Most commonly integrated tools were social networks, digital communication devices and automation processes. In this area, our study findings were in line with the existing literature on the expected and real benefits of digital transformation.

3. THE CHALLENGE OF DIGITAL TRANSFORMATION

Despite the reported benefits of digital transformation, few see it as an easy process to implement. Further, according to Fitzgerald et al. (2015), most companies actually struggle to receive clear cut benefits from this process. Importantly, while it was previously believed that the lack of technological knowledge and the prevalence of legacy systems was the common obstacle to successful digital transformation, recent literature supports the idea that the problem is often in the lack of leadership for this kind of transformation (Baculard, 2017; Kahre et al., 2017; Whitehurst, 2015). Indeed, in many cases, companies where leveraging technology is not an issue still report challenges in digitalization (Fitzgerald et al., 2015). Baculard (2017) wrote that many organizations commit a common mistake by investing large sums of money and deploying digital technologies as soon as possible. This often leads to the lack of effort coordination and absence of harmonious integration of technology throughout organizations. Similarly, Westerman (2014) noted that failures in digital transformation are usually products of either deployment without coordination or the lack of involvement from organizational leaders.

A comprehensive study by Fitzgerald et al. (2015) revealed that there are several sets of factors that usually act as hurdles in the process of digital transformation. In some organizations, the problems were related to the lack of urgency across all levels; in others it was culture; and yet in others the problems existed in organizational constraints. However, a comprehensive look at these sets of obstacles reveals that they could be addressed through effective leadership. As Westerman (2014) noted, the key task in digital transformation is to push the company in a different operational mode, and this is the task for executives. If they are not able to create a case for digital transformation and lead organization through changes, all efforts are likely to fail.

The results of our survey also revealed the many challenges of digital transformation process. More than half of the respondents (9 in total) reported substantial obstacles in meeting the objectives of digital transformation. Interestingly, five respondents struggled to identify the clear agenda for digital transformation which indicates the lack of clear goals. With ten respondents feeling that digital transformation in their organizations either did not bring the expected results or only partially fulfilled its initial purpose, the question of obstacles to the process remained wide open. However, organizational politics and leadership issues came to the fore. Eight respondents could not clearly formulate the vision behind their digital transformation efforts. Six respondents were not able to identify a roadmap for their digital transformation process. While nearly all respondents acknowledged the importance of aligning organization leadership goals with digital transformation process, only three could clearly formulate how that worked in their organizations. Some respondents mentioned such obstacles as old technology prevalence, employee unwillingness to implement innovations, and rigid organizational structures. However, when asked whether these issues could be addressed and resolved by leadership agenda, everyone said yes. The lack of time then was mentioned often as an issue that does not allow leaders to address this effectively.

4. THE ROLE OF LEADERSHIP

The results of our survey demonstrated that technology itself was hardly an issue in determining success or failure of digital transformation efforts. Rather, leadership was the primary factor. Whitehurst (2015) introduced the idea of “digital acumen” in leaders as an ability to effectively integrate digital innovations throughout organizations. This term is closely related to what Fitzgerald et al. (2015) called “the digital imperative” – maximizing digital transformative effects through leadership and coordination. Their research revealed that the companies embracing this imperative have, on average, much better business results than their leaders. Importantly, simply understanding the major opportunities and challenges of digital transformation was found insufficient. Building and communicating a clear vision for transformation was found essential for effectively executing digitalization.

This carries several important implications for leadership practice overall and combining leadership with digital transformation specifically. Researchers identified that digital transformation often involves restructuring organizational context and culture (Chew, 2015; Rogers, 2016). Westerman et al. (2014) wrote that this requires strong leadership capabilities at least in four areas: 1) creating vision; 2) engaging employees; 3) focusing on digital governance; and 4) merging digital technologies with organizational processes. Baculard (2017) envisioned leading digital transformation as a three-step process where leaders would define where change is needed; choreograph the change; and empower people. The first action assumes creating a clear point of view about where digital transformation will take place and what exactly is expected from it. The second action assumes defining new roles and processes, acquiring new skills, and mobilizing others for change. Finally, the third action assumes involvement of “digital champions” who would act as promoters of digital transformation as enablers of employees.

In our survey, we defined respondents with high, medium, and low levels of success in digital transformation efforts. In line with the researchers mentioned above, we found strong relationship between the ability to lead digital transformation and its success for organizations. Successful leaders demonstrated ability to create the framework of digital change prior to actual transformation efforts. They mentioned developing an appropriate vision for transformation, identifying the key areas of transformation, and defining goals and objectives. Those leaders stated that equipped with these tools they were able to align organizational employees with their own visions of what the company was and would be after the transformation process ends. Clear communication across organization was also mentioned as essential by the successful leaders. They mentioned that it was as much important to explain why the company would undergo digital transformation as to declare such transformation. When organizational members had a good idea of why the organization would head that way, they would be easier to engage. One respondent specifically mentioned that “explanation of goals and directions helped create momentum for change and motivate organizational members.” Successful leaders would also mention strong efforts in coordinating transformation activities across organizations. As one respondent argued, “leaders need to keep an eye on the process and make sure that everyone fully understands their roles in it.”

Interestingly, organizational leaders who succeeded in digital transformation of their businesses had a fundamentally different perception of obstacles and challenges to this process from the perspective of those who saw mediocre or no positive results. Whereas the latter considered obstacles as the major reasons for their failures, the former treated challenges and obstacles as a necessary part of successful transformation. This embracing attitude was succinctly explained by one respondent: “no leader can predict everything and run a completely smooth process of digital transformation. However, every leader should be able to identify obstacles when seeing them and address them timely and effectively. Doing nothing in this process or complaining are the same as deliberately trying to stall the process,

and nobody needs that.” This echoes a commonly cited thesis by experts in digital transformation that the only wrong move by organizational leaders “not making any move” (Fitzgerald, 2015, p. 12).

5. CONCLUSION

The process of digital transformation, although very much desired by many organizational leaders, is a very complicated process. Understanding technology in question and giving green light for its implementation rarely brings successful results. Instead, executives need to understand that digitalization of their businesses often assumes a radical review of the ways in which many organizational processes operate and recognize the necessity of actually leading this complicated transformation. Organizational and leadership theory suggests that there are some important areas without addressing which organizations are unlikely to have the desired results of digital transformation. It starts from formulating clear goals and objectives of digital transformation. Leaders must establish what they expect to achieve with digitalization, where, and how. On the basis of this knowledge, careful framework and mapping of the process should be established. Leaders must possess digital acumen and develop digital imperative which involves a clear vision and the ways to engage everyone in the process. Successful leaders are able to align organizational members around the common goals and vision, empower them for action and coordinate the efforts by being engaged and offering rewards. Just as important is to embrace obstacles and challenges of digital transformation. Successful leaders do not treat them as reasons for failure; rather, they consider them as an additional source of knowledge and take special pride in overcoming them.

The literature on the alignment of leadership and digital transformation is still relatively scarce and under theoretical development. However, an increasing number of empirical studies suggest that both explicit and implicit relationships are present. This study was not an exception. It showed that leadership does matter when it comes to digital transformation. Just like their peers abroad, Saudi leaders seek to capitalize on the opportunities promised by digital technology, although relatively few are actually successful. It was established through a series of interviews that those who managed to get directly involved in digital transformation of their organizations and followed several common steps were managed to compel and drive the required change and achieve great results. In words of Westerman et al. (2014), these individuals were able to lead the technology instead of being led by it.

6. REFERENCES

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