

# BEYOND DIGITAL

How Great Leaders  
Transform Their Organizations  
and Shape the Future

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# 1

## Shape Your Future

The future cannot be predicted, but futures can be invented.

—Dennis Gabor, Nobel prize–winning physicist

The digital age began almost 75 years ago, with the invention of the transistor. The internet is more than 50 years old. The IBM PC was introduced 40 years ago. Even companies that we think of as digital pioneers are aging: Apple is 45 years old, and Google is coming up on 25. Since the first commercial internet browser was created (going on 30 years ago), “being digital” has become a business mantra. But that is no longer enough. We must now focus on building new forms of advantage rather than just digitizing what we have done in the past.

Yes, the underpinnings of business today are digital, but digitization has become a long road to equivalency, and an expensive one at that. Creating sustainable advantage requires more than digitization. It requires understanding that the nature of competitive advantage has shifted—and that being digital is not enough.

*It's time to move beyond digital.*

Retail shows why. As in most industries, companies took retail digital starting in the second half of the 1990s. Going digital created

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great efficiencies in managing inventory, sped up the processing of transactions, and allowed for analytics that supported buying and distribution. These changes meant lowered prices and generally improved customer experience—but they didn't fundamentally change the process of retail. Companies still focused largely on having (and growing) their retail footprint, buying inventory they believed their customers wanted, often over-bought non-staples, and discounted what didn't sell. They just reduced the quantities involved and made their mistakes faster.

Now look at Best Buy (a big-box electronics retailer based in the United States), which didn't just digitize its operations in the face of fierce price competition from online retailers. It set out to do something much bolder—going beyond selling electronics to help consumers address the significant challenges they had with everything that followed the moment of purchase. It built the Geek Squad to provide customers both in-home and in-store technical support and service, and leveraged many digital advances to accomplish that task. As a result, Best Buy builds deeper relationships with customers, offers technical help, learns about customer habits and wants, and helps customers realize the full value of their investments in electronics and technology. Best Buy didn't just digitize what it had been previously doing but reimaged its role in the world and how digital could help it fulfill that role. As a result, it has thrived even as so many big-box retailers have been shuttering stores.

In the world beyond digital, companies can—and must—do things differently. Rather than waste the time, effort, and money producing items that may or may not sell, you can now build on digital connections and create relationships with customers so close that you anticipate their needs and desires in real time and in a very granular way. Like Best Buy, you can provide customers with a tailored experience that makes them feel valued—and willing to trust you enough to share information about likes and dislikes that you can use to further your relationship with them. You can make production pro-

cesses more intelligent so that you manufacture exactly what a customer wants in time for when they want it. And you can achieve much more, once you stop focusing on just becoming more digital and move to the next level.

All these advances open up the spectrum of what companies can do. They enable—and require—companies to rethink the unique value they can offer customers. Digital technology doesn't just allow for doing things better but for doing better things—even generating whole new business models as companies reimagine their futures.

The path taken by Best Buy, and by all the companies researched and profiled in this book, is in stark contrast to what many companies seem to be doing. Instead of incrementing their way toward an uncertain future, these leading companies set out to shape their future by serving a more ambitious and relevant purpose and fundamentally rethinking the system of capabilities that allows them to deliver on that purpose.

What has shifted? With product lifetimes shortening, organizations are recognizing that they can't sustain a differentiated position by focusing narrowly on products and services. Just because you have the best offerings today doesn't mean you'll have the best tomorrow. Smart companies now focus on building differentiation in what they do and how they operate, not just what they sell. If you get your differentiated capabilities right, then the flow of products, services, solutions, and experiences will follow.

Think about Apple's design capability, which has allowed it to disrupt every industry it entered, including computers, music devices, phones, cameras, and watches. Think about Amazon's retail interface design capability, which, through its sophisticated search, comments, linking, and online payment features, has been the driving force in moving almost every consumer category online. Think about Frito-Lay's rapid flavor innovation, which lets it quickly produce new ones when it senses demand—for instance, a Mac 'n Cheese flavor for Cheetos.

Technology plays an important role in all of these capabilities—but these capabilities are much more than just technology. They are highly integrated and often complex combinations of knowledge, processes, technologies, data, skills, culture, and organization models that together allow companies to create value in ways that others cannot. The complexity and need for integration make capabilities hard to replicate, which is why companies that define themselves through what they can do tend to be distinctive and create lasting advantage.<sup>1</sup>

In the beyond digital world, the future will belong to companies that are willing to shed past belief systems and define new, much bolder value propositions. It will belong to companies that work with others in networks and ecosystems that create value in ways that no single organization can achieve alone and that continuously push the boundaries of what's possible. It will belong to companies that have clear and honest answers to two fundamental questions: “What unique value do we contribute in today's world?” and “What capabilities allow us to create that value better than anyone else?”

The problem is that this is all easier said than done. Building truly differentiated capabilities does not happen overnight, and you cannot expect to create value in this new capabilities-driven way while operating in an old model. Transforming your company to create value in this new way in the midst of a disruptive era is a *big* task. It requires leaders who challenge every dimension of their company: its purpose, its business model, its operating model, and its people. And it requires leaders who are willing and able to challenge themselves and question the fundamental ways in which they have operated so far.

The good news is that it can be done. We've seen it done in our own consulting work and in that of our colleagues. We've also seen it in the success and evolution of the companies we studied in depth for this book. Competing in industries as diverse as finance and pharmaceuticals, jewelry and software, aviation and construction, these companies have pivoted their strategies based on building their differentiated capabilities and have shown the power of moving beyond digital.

## Twelve Beyond Digital Companies

We conducted in-depth research over the years 2018 to 2021 into twelve companies from across different industries and regions to test our thinking and to tease out examples. We will tell their stories in detail in the chapters ahead, but here's a preview:

**Philips**, the Amsterdam-headquartered multinational originally founded as a lightbulb manufacturer in the late nineteenth century, exited its leading businesses in lighting and consumer electronics and reoriented its future around combining its know-how in manufacturing medical devices with emerging technologies and health-care solutions capabilities. As a result, Philips is transforming health outcomes for billions of people across the planet.

**Hitachi**, the Japanese conglomerate that had a products-based portfolio ranging from power plants to appliances to semiconductors, had been facing rapidly changing global market conditions and competitive landscapes. It reconfigured itself to focus on supplying what it calls “social innovation businesses” to improve quality of life across the world and create an environmentally conscious society. That reconfiguration led Hitachi to focus on five markets: IT, energy, industry, smart life, and mobility, building on the company's strengths in information technology, operational technology, and products.

**Titan**, a leading watch manufacturer and part of India's Tata Group, reimagined India's jewelry industry through a powerful ecosystem play, allowing it to deliver artisanal quality and trust within a modern retail experience.

**Eli Lilly**, the US pharmaceuticals maker, was in danger when several of its biggest and most profitable drugs went off patent. It undertook a transformation to significantly improve its R&D

success rate and time to market of healthy living therapies, which allowed it to return to a premier position in the industry.

**Citigroup**, the US global bank that had been a financial supermarket when the economic crisis of 2007–2008 nearly put it out of business, took a step back to redefine what the company was uniquely about and created Citi Holdings to hold and divest everything that did not fit its new identity. The company continues to build on that foundation and uses the disciplines it learned during the financial crisis to refresh its strategy and further transform its core business into a leading future-oriented digital global bank.

**Adobe**, a Silicon Valley pioneer known for its graphics software, supercharged its offerings and found new relevance by transforming its business model to a cloud-based subscription service. It then leveraged the resulting data and consumer insights to effectively create and run a digital business.

**Komatsu**, based in Japan, transformed from manufacturing and selling construction equipment into a leader in digitally enabled smart construction solutions, helping its customers dramatically improve productivity and safety.

**Honeywell**, the US-headquartered multinational conglomerate, saw how digitization could transform the highly competitive market for sales and service in commercial aviation. It created a Connected Aircraft business to change the way people communicate on and with planes to make flights safer, more productive, and more entertaining.

**Microsoft**, the software giant founded in Redmond, Washington, radically adapted to the cloud-first, mobile-first era. It went from being a technology provider licensing software and selling products to a business model based on customers' consumption of cloud services. The company now empowers

organizations and individuals to improve their operations and experience of daily living. The change required Microsoft to undertake a huge organizational and cultural transformation to build and deliver at global scale a business where its success was driven by its customers' success.

**Cleveland Clinic**, a healthcare system known for innovation, has been expanding its leading patient care capabilities to more locations and more patients across the world and has spread learnings occurring anywhere in its growing ecosystem to improve the care it delivers everywhere.

**Inditex**, the Spanish multinational retailer, has long dominated the market for midpriced fashion apparel with its Zara brand, but recently transformed its operations to get ahead of competition to deepen and speed up its understanding of what customers want and better satisfy those wants by seamlessly integrating its physical stores and online sales channel.

**STC Pay**, Saudi Telecom's financial startup, created a highly successful fintech platform that provides innovative financial solutions, banking technologies, and digital experiences for Saudi businesses, citizens, and guest workers. STC Pay created unprecedented financial freedoms in a previously underserved Islamic banking system.

As different as their stories are, every one of these companies had to reimagine its industries and business models. Some reacted out of a position of strength; others faced an existential threat. But all of them saw the possibilities that the new, beyond digital environment offered, decided to get out in front of change, and shaped their own future.

Our research into these twelve companies has allowed us to uncover seven elements common to all their transformation journeys that we believe can provide a powerful road map for how you can achieve enduring success in a world beyond digital. We describe them

## The Speed Trap

When we set out to describe what was so different about the beyond digital age, one of our colleagues said, “If I hear someone talk about the increasing rate of change one more time, my eyeballs will roll so much the muscles will cramp. *Future Shock* was published in 1970.<sup>a</sup> That’s the year the Beatles broke up.”

People pay attention to change because it is new and ignore continuity because it is not new, just as few pay attention to the electric or water utility until there’s a blackout or a leak. But as Amazon’s Jeff Bezos said in a 2012 fireside chat, “I very frequently get the question: ‘What’s going to change in the next 10 years?’ And that is a very interesting question; it’s a very common one. I almost never get the question: ‘What’s not going to change in the next 10 years?’ And I submit to you that that second question is actually the more important of the two—because you can build a business strategy around the things that are stable in time.”<sup>b</sup>

The first thing that comes to people’s minds when they describe this new age is *speed*, but that’s a facile diagnosis for the more interesting and multifaceted phenomenon that we explore in this book. And “speed” is not just a simplistic diagnosis but a dangerous one, because it can lead to the wrong prescription: become the

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below, but first a little background about how the competitive dynamic has changed is in order (see “The Speed Trap”).

## A New Competitive Dynamic

The first task is to step back and rethink the very basics of what drives success today. This is not the long list of new technologies, trendy

fastest hamster in the wheel. If all you do is increase speed, you will just make the same mistakes faster.

You will need to look for the things that *don't* change quickly—the massive problems in the world that need to be solved, the fundamental wants and needs your customers have and will continue to have, the unique things your organization is able to achieve.

To be clear, speed is an important factor, just not the way people generally think. They focus on externally driven speed (how fast things are changing), when the real issue is how quickly you can make decisions internally. People focus, in particular, on incredibly rapid change in technology, when the far bigger issue is the pace of business model disruption, which while often driven by technology typically occurs far more slowly.

If you use the things that don't change quickly as an anchor for your organization, you can channel your efforts to the areas that matter most to your customers and the problems you're solving. Doing so will allow you to get in front of change and to shape your own future. Instead of forever reacting to external forces, you will take control and create the change you want to see.

a. Alvin Toffler, *Future Shock* (New York: Random House, 1970).

b. <https://www.youtube.com/watch?v=O4MtQGRIIuA>.

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business models, and the latest tools and apps, but the fundamental ways in which competitive advantage has changed and become a new force for creating winners and losers.

The major changes we've witnessed can be segmented into three clusters: a revolution of demand, a revolution of supply, and a transformation in the larger context in which companies operate.

## The Revolution of Demand

On the *demand side*, the internet has given customers visibility into a much wider range of choices, whether through individual companies' websites or through aggregators like Amazon, eBay, and Alibaba. That visibility has caused a massive increase in the number of competitors each company has, because customers can see and buy products and services from providers located anywhere around the globe. Online reviews have also dramatically increased customers' ability to comparison shop and to learn about the experience of other customers. There simply is no place to hide for companies that aren't both excellent and differentiated.

Customer loyalty and retention have declined as digital marketplaces make it easy for customers to reevaluate their choices with every new purchase and select the provider that offers the best value proposition.<sup>2</sup> While relationships are still valuable, they are increasingly hard to establish and maintain without real differentiation. The minimum thresholds for consumer expectations of trust, quality, experience, and value keep shifting as performance is constantly reassessed. Among other changes, customers are less and less likely to be willing to be the integrators. They want companies to pull everything together to solve a problem, not to have to piece the solution together themselves.

Customers across industries have responded to the larger set of options they can choose from with a constantly increasing set of ever-more specific requirements. They use the plethora of communication channels not just to articulate their needs but to insist that those needs are met. Customers therefore don't align with simplistic segments anymore—and companies are dealing with a nearly infinite set of expectations.

Finally, customers have increased their demand for experiences that come with a product or service. The quality of the experience—from discovery to purchase to speed of delivery to any continuing

service relationship—is often as important as the quality of the product or service itself.

This intensity of customers' preference and their increased visibility into value have raised the bar considerably for any enterprise—being “in the game” is not enough, and just trying to do what others do will increasingly lead to irrelevancy. The future is all about substantive differentiation and creating measurable and meaningful value.

### The Revolution of Supply

On the *supply side*, although we still see remnants of the past, massive changes impact how companies compete.

First is the issue of scale. For decades, big companies could dominate by using the benefits of mass production, distribution, marketing, and back-office operations. Today, companies get easy access to that sort of scale without owning it. Consider how cloud computing has eaten into the back-office advantages big companies once had and how today's sophisticated manufacturing is much less capital-intensive than yesterday's. Small companies (often enabled by alternative financing methods) now compete head-on with established players. Just think about how fintech companies like Robinhood in the United States, N26 in Germany, or OakNorth Bank in the United Kingdom have impacted the financial services market. The power of incumbents has declined, and barriers to entry have been lowered.

Second, a decline in friction has significantly reduced what we might call barriers to cooperation. Thirty years ago, companies that wanted to exchange data electronically had to pay tens of thousands of dollars to set up dedicated lines of communication with select partners; now connecting with multiple partners—large and small—has become much easier. While friction is hardly eliminated, reducing costs and hassles has enabled the creation of ecosystems of companies and institutions that together offer value in ways that no player

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alone could ever aspire to do. This ecosystem-driven economy has many dramatic implications:

- The offering of significantly more ambitious value propositions that solve real customer problems (like addressing people's need for mobility or health care) and that put pressure on everyone else to do the same.
- The rise of platform providers like Alibaba and Amazon that have created significant network scale and pull to these ecosystems.
- The increasing specialization of companies that focus on what they are truly great at and partner with others to provide the rest. Just think about what it means to be good at marketing these days: analytics, web design, user experience design, digital asset management, paid search and social media engagement, public relations, branding, advertising, and much more. Easy access to specialized services raises the table stakes almost to the point where big, clumsy generalists cannot compete.
- More intense competition, because the ease of plugging into an ecosystem means everyone with a role in it has to be prepared to defend its place.

In addition, companies' ability to capture, store, and analyze data has allowed them to greatly improve the quality of all of their undertakings, whether with customers, with the supply chain, in manufacturing, and so on. Gaining scale in data, in fact, has become the driving force for many business initiatives, whether you're entering partnerships with companies that hold data you need or setting up customer interaction channels that give you better insights into what customers want or need.

## The Transformation of Context

The third major change we've witnessed and that has changed competitive dynamics—the *context within which companies operate*—is that the world has become much more complex. While leaders in the past were often driven almost exclusively by profit motives, today's leaders need to balance a much larger set of factors when considering how they create value. They need to deliver value to customers, invest in employees, deal fairly and ethically with suppliers, ensure environmental sustainability, and support the communities in which they work, all while generating long-term value for shareholders.<sup>3</sup> No company today can afford not to have an ESG (environment, society, and governance) agenda that is integrated into the purpose the company will drive as it shapes its future. And stakeholders increasingly ask for transparency on companies' ESG impact, leading to the rapidly growing importance of nonfinancial reporting to assess the full value of a company or investment.

Companies must adapt to a world in which people increasingly want to work for organizations whose purpose connects to their personal values. They ask that their employers have a broader positive impact on the communities in which they operate. And they look to companies to help address some of the massive societal problems—for example, climate change, unemployment, racism, or mental/emotional well-being—that threaten the world today.

The ever-increasing level of global connectedness, while creating significant opportunities, has also greatly raised uncertainty and exposure to risk. It is difficult to emerge unscathed from the impact of hurricanes, floods, wildfires, supply chain interruptions, trade wars, political turmoil, armed conflicts, pandemics, and many more, even if these events originate in regions far away from where you operate. Companies must face challenges that affect their customers' ability to spend, their employees' ability to perform, and their partners' ability to deliver.

Companies also face new and ever-changing regulations. Whether they aim to get climate change under control, to protect national economies, or take care of people's health during a pandemic, regulatory changes are inevitable and can have significant consequences.

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These changes, of course, haven't happened overnight. One of the characters in Ernest Hemingway's novel *The Sun Also Rises* may have described the phenomenon most succinctly when he was asked how he had gone bankrupt: "Two ways," he said. "Gradually, then suddenly."<sup>4</sup>

### How Leaders and Companies Must Respond

A revolution in demand, a revolution in supply, a transformation of the business context—all in less than half the span of a single career. How should companies respond? How should you respond as a leader? It's clear that the old playbook—bulk up to dominate, split up to “release value,” run initiative after initiative to digitize or rationalize your operations, or just get faster—is a response to the symptoms, not to the underlying causes.

A deeper response is to react to the changed competitive dynamic and find fundamental new ways of creating value. What matters for success in today's world is building scale in a few capabilities that allow you to deliver value to your customers and the world at large in a unique and differentiated way, via new, digitally enabled ecosystems and platforms.

Zara, the flagship brand of Inditex, is an example of a company that reshaped its marketplace—midpriced fashion apparel—by competing in this capabilities-based way and by building on the full array of digital tools and technologies to evolve and scale their differentiating capabilities.

Apparel is one of the early markets in which the demand revolution took hold. It's a hyper-competitive market with quickly changing consumer preferences and significant customer churn. Zara began to address this fashion trend head-on, decades ago. Rather than adopting the traditional scale-based model of retail, the company pioneered a unique business model based on "fit to demand." Instead of committing a large percentage of production for the next fashion season, Zara commits only a small amount and uses customer feedback and a highly responsive production network to replenish stores with new and different products twice a week. Zara goes against the conventional wisdom of mass production by producing small batches of garments and locating 60 percent of its manufacturing in proximity to its headquarters in Spain in order to be more flexible. This allows the company to prototype new styles in just five days; and it can take a new garment as little as fifteen days to go from design and production to store shelves. The concept is phenomenally successful: Inditex began expanding globally in 1988 and today is the world's largest fashion retailer by revenue, selling in more than two hundred markets through its online platform and its over six thousand stores in ninety-six markets.

Zara's success is due to the powerful capabilities it has built and scaled across the company: deep customer insights; accurate fashion-forward designs; efficient response manufacturing and operations; and globally consistent and pervasive branding. These capabilities work together in a mutually reinforcing system, each dependent on the others and each making the others stronger.

Zara's leaders, however, don't rest on their laurels. They recognize that their revolutionary supply model needs to keep turning to keep pace with change. They have used digital to lift Zara's differentiating capabilities to a whole new level. Customer insights were traditionally gained by sales associates and managers directly observing and engaging with customers about what they liked, disliked, and would like to see in stock. That practice is still important but has been complemented by additional information. In 2014, Inditex's leaders

deployed a new take on an old technology, embedding a cheaper, recyclable RFID chip in the security tag of every item Zara sells—something virtually unheard of at the time. This tag now allows individual tracking of garments from the logistics platforms until their ultimate sale, anywhere around the globe, instantly. That knowledge allows the organization to uncover fashion trends and create new waves of collections even more precisely than it could before. Jesús Echevarría, Zara’s chief communication officer, recounts, “The RFID meant a huge step forward. It was the tool that helped our traditional ‘fit-to-demand’ model to be even more accurate. It helped stores locate the precise sizes in the right place and to update inventories in a very quick way. And definitely it was the solid basis for the fully integrated platform of stores and online policy marked by the CEO, Pablo Isla.”<sup>5</sup>

Zara didn’t stop there, either. The company also realized that RFIDs made distribution more efficient and in-store garment management more accurate, which in turn improved overall customer service standards. It also enabled the full integration of all physical and online stores, something leadership did not even have in mind when they started looking into the broader application of the technology. But now, with e-commerce sales becoming more important, “in every country, the internet is the best store,” says Iván Escudero, head of RFID and Integrated Stockroom:

The internet is the macro store, where all the collections are. Customers have changed significantly: they see something they like on the internet, they go into a store, and they may be disappointed if the garment is not there. So, every store now is a picking point for internet orders, and you can order from any store and have it shipped home. But that’s only possible because of how we use RFIDs. RFIDs tell us exactly where the stock is, and thereby allow us to have a centralized stockroom. If there’s an order nearby, we can move it from one point in the stockroom to a store and deliver it from the store to a final client.

Inditex is also changing its store concept: opening larger, high-tech stores; extending and modernizing existing stores; and consolidating smaller stores that are less well-positioned to offer customers these new, integrated services. It increasingly uses technology to simplify the shopping experience. RFIDs make it easy to locate the desired product, customers can book fitting rooms through their mobile app or in-store devices and continue shopping until they receive a message that a fitting room is available for them, and self-checkouts and mobile checkouts reduce waiting time.

In 2017, Zara launched a new pop-up concept with a novel shopping experience, first in London, and then in other cities. The pop-up location offers a select collection of items that can be purchased through Zara.com directly from the store and offers customers the ability to collect online orders and return or exchange items. Zara personnel are equipped with tablets that allow customers to purchase at any point in the store and pay at the till. And smart mirrors show items in real size to coordinate and combine items with other garments and accessories.

Covid-19 has accelerated many of the trends that shaped Inditex's integrated stores and online platform strategy. In June 2020, the company announced it would speed up and broaden its digital transformation. Over the next two years, it would invest €1 billion in bolstering the online business and a further €1.7 billion in upgrading the integrated store platform, deploying advanced technology solutions. The company would consolidate more than a thousand smaller stores that were less well positioned to offer these new customer experiences. "The overriding goal is to speed up full implementation of our integrated store concept, driven by the notion of being able to offer customers uninterrupted service no matter where they may find themselves, on any device and at any time of the day," Executive Chairman Pablo Isla said.<sup>6</sup>

As Zara shows, differentiating capabilities aren't just things functional leaders invest in. These capabilities must be at the core of your purpose because they define who you are as a company. They must

deliver the value proposition you are promising to your customers. And they must be where an ever-increasing amount of your investment goes and where your talent is deployed.

### The Seven Imperatives for Beyond Digital Leadership

For most companies, creating lasting value in a beyond digital world requires transformation. Unfortunately, many companies are playing from behind, launching digital initiatives to try to catch up with the pace of technology innovation. Covid-19 has accelerated this trend. Yes, companies had to make sure they could reach customers digitally and enable employees to “go to work,” but this accelerated wave of digital initiatives is mostly about staying in the game. No matter how many digital initiatives you implement, you can’t expect to win by being the same as your competitors, which are all doing similar things (even if at different speeds).

So what do you need to do to transform successfully, and how do you do it? To buttress the insights from our consulting work, we conducted a three-year study (2018–2021) of businesses that had reputations for being extraordinarily proficient at setting a powerful direction for their company and having their companies execute. From the dozens of companies suggested to us by industry experts, we used several criteria to select as our subjects the twelve companies listed above. We looked at the correlation between their transformational approach and consistent business success. We ensured that they came from a range of industries and regions. Finally, we chose companies that we could learn about in depth by interviewing the transformation’s leaders. Note that we didn’t just select successful companies to study what they had in common—an approach that many researchers have failed with in the past. Instead of trying to represent every winning formula, we focused on the only approach

we know—backed up by significant analytical research—that generates consistent results: shaping your company’s future by clearly defining how it is going to create value in the future and transforming the company from the top to the bottom to enable it to deliver on that value proposition.<sup>7</sup> We selected companies that had followed that approach and set out to learn how they made decisions and how they operated to see what they had in common.

Our objective was to learn not just about what these companies did, but about how they did it: how they made choices about the future, how they came to the insights that informed their choices, how their leadership teams worked, how they got people on board, and how they overcame the inevitable stumbles in their journeys.

We found that despite the differences in industry, geography, and size, the transformation journeys these twelve companies undertook and the way their leadership teams navigated the changes had much in common.

We summarize the common themes in the form of seven leadership imperatives to transform your organization and shape the future (see table 1-1). Together, these imperatives provide a powerful playbook for how to structure and execute the transformations that are required.

We’ll go into detail in the chapter on each that follows, but here is a bit about how the winning companies we’ve researched put each of the imperatives into practice.

### **Reimagine Your Company’s Place in the World**

To succeed in the beyond digital world, you need to take a stand on what position your company is going to occupy. You need to take a leap of imagination to look beyond your current portfolio of businesses and products and beyond what your competitors are doing to imagine who you want to be. You need to define your company’s place in the world in terms of the unique value you create for customers and for society and the system of distinct capabilities that allows you

TABLE 1-1

**The seven leadership imperatives for transforming your organization and how they differ from what companies typically do**

What companies typically do	Lessons learned from leading companies
Implement digital initiatives and adapt to customer and competitor moves.	<b>Reimagine your company’s place in the world:</b> Shape your own future by redefining what significant problems your company is here to solve and what differentiating capabilities you will need to build to deliver on that promise.
Source elements of their value chain from suppliers, distributors, and other third parties.	<b>Embrace and create value via ecosystems:</b> Collaborate with other organizations—including, in some cases, competitors—to deliver value propositions that no company could offer by itself. Focus on what you do best and combine that with the capabilities, speed, and scale your ecosystems enable to generate greater value for all participants.
Invest in data analytics to better understand customer behavior	<b>Build a system of privileged insights with your customers:</b> Build trusted relationships with customers to get unique insights on their true wants and needs. Be willing to source and share data to accelerate your ability to create differentiating insights. Compete on the basis of those insights to get in front of change and continuously improve the value you create.
Organize in matrix models of functional and business unit specialization and set up cross-functional projects to deliver change initiatives.	<b>Make your organization outcome-oriented:</b> Bring together multidimensional skills in outcome-oriented teams that deliver the differentiated capabilities that drive the future of the organization. Place those teams at the heart of your operating model and rewire your organization’s DNA to enable the new ways of working.
Give experienced leaders strong top-down authority to deliver results in their individual areas.	<b>Invert the focus of the leadership team:</b> Rethink the roles, skills, and power structures on the leadership team to drive collaborative performance. Install governance mechanisms that shift the team’s focus to propelling the transformation together.
Implement change and communications programs to overcome change resistance and incentivize people to take the journey.	<b>Reinvent the social contract with your people:</b> Center your transformation on your people, reassuring them of the intrinsic value of humans in a world of automation and giving them the freedom and means to take leadership in the transformation. Create a system of engagement focused on purpose, contribution, community, and rewards beyond pay.
Build on their strong suits as leaders to drive important changes.	<b>Disrupt your own leadership approach:</b> Recognize the need for a new type of multifaceted leadership, where strengths need to be balanced across a range of leadership paradoxes.

to create that value in ways that others cannot. If your company vanished off the face of the Earth, how big a hole would you leave for your customers and society?

The value you're creating, in many cases, will be significantly more ambitious than what companies could have imagined just five to ten years ago. That's because it's much easier for them to collaborate toward a common goal and because the evolution of platforms and ecosystems has made it possible for them to choose more purposefully what they're going to focus on and in which areas they can access another organization's capabilities. This is absolutely not just true for the largest organizations. Any company—and every company—has the opportunity and, we believe, the requirement to take on a bolder and clearer vision for what part of customers' lives or businesses a company will help address.

Coming up with a powerful place combines art and science. Looking at trends and asking customers what they want is no longer enough. You need to get in front of change by developing a point of view on how value will be assessed and created in the future. You need to understand how regulatory, societal, environmental, and technology changes may impact the future. You need to recognize what you do uniquely well and how you can leverage those strengths to create unique value. You need to identify how different value propositions could help you shape demand and how those value propositions would do in the face of external shocks. You will then need to make a bold choice about which value proposition gives you a right to win and that will determine your place in the world.

Once you've defined your company's place in the world, you need to reimagine the capabilities needed to deliver on that place. To do this, rethink end-to-end what you need to do to fulfill your value proposition. Be clear about how technology decisions should support your capabilities, rather than playing the game of investing in everything. Focus your energy on how digital can help you improve the value you have promised to deliver.

### Embrace and Create Value via Ecosystems

Trying to compete on your own will not only limit the value-creation opportunities available to you but also make it impossible for you to gain deep customer insights and to scale up quickly enough the critical capabilities that are required. For companies big and small and in whatever industry, going it alone will only increase the risk of being left behind.

Many of today's problems are so massive that no single company can solve them on its own. They can be tackled only by networks of companies and institutions that work together. And the era of asking customers to be the integrator is over. Customers expect—and demand—that suppliers work together to deliver integrated solutions.

Given the pace of change, companies need to quickly scale up capabilities. They don't have the time—or the financial resources—to build all the required capabilities on their own. The only way for companies to thrive in this disruptive age is to work with ecosystems to access the capabilities that others have built—and do it at speed, at scale, and flexibly.

Making your ecosystem strategy work isn't easy. The level of complexity is admittedly higher. It's not enough to worry about your own value realization, you also have to be concerned about how your ecosystem partners are doing. And you can expose your company to real risks by opening up access for your ecosystem partners to your data, intellectual capital, and talent. But the risks and effort are worth it, because competition will increasingly be won or lost based on ecosystems.

### Build a System of Privileged Insights with Your Customers

Understanding your customers, while always important, is taking on a whole new urgency. They want change more quickly, and their

needs and desires have become more granular. At the same time, opportunities for data collection, storage, and analysis have exploded. If you don't take advantage, you'll fall behind.

Building a system of privileged insights with your customers requires much more than just buying market research. It requires companies to establish a foundation of purpose and trust, because customers share their most useful information only if the value you offer resonates with them and they trust you to make good use of the information. It requires companies to lay out a purposeful customer insights strategy and road map to focus their efforts on solving their customers' most important problems. It requires companies to "listen" to customers across the entire spectrum of their interactions by making mechanisms for gaining insights an integral part of how they operate. And it requires companies to wire their privileged insights into how they work by using them to systematically strengthen their value proposition, capabilities system, and the products and services they offer to remain sustainably differentiated.

Gaining privileged insights may become one of your most important capabilities given its importance to value creation and sustainable differentiation. The better your insights, the more you can improve your value propositions in a way that is relevant for customers; the more you improve your value propositions, the more trust you generate by delivering on your promises and the more customers engage with you; the more customers engage with you and trust you, the more you remain connected with and relevant to them—no matter what changes are happening in the world around you. And to those that fear the constant shift of customer behavior and how to stay relevant, developing this capability will be the best antidote for falling behind, or better, the best tool to continue to shape your value proposition going forward.

### Make Your Organization Outcome-Oriented

Creating value by scaling up a few differentiating capabilities requires a new model of working and teaming given the likely gigantic lift some of these capabilities will require as you deliver a bolder value proposition. You can't get away with plucking people out of their functional roles and asking them to work together 10 or 20 percent of their time, or for six weeks or six months. The typical cross-functional teams are no match for the dedication, focus, and energy required to bring your value proposition to life. Instead, you will need to build more durable outcome-oriented teams that deliver your differentiating capabilities by bringing together what they need from across the organization.

Creating these teams starts with identifying the few things that are most important to get right to deliver on your value proposition. What expertise, knowledge, technology, data, processes, and behaviors must you bring together to be able to deliver that output? This sort of thinking will let you shift from the old functional and fixed organization to a model of outcome-oriented teams that work across organization boundaries to deliver your capabilities.

These teams will coexist with the corporate center, business units, and functions/shared services, but will increasingly become more prominent elements of the organization. Their leaders will have a seat on the top team equal to that of their corporate, functional, and business unit peers. Many functional experts will be embedded within the outcome-oriented teams and rotate across functions and business units to develop broader skills and collaborative ways of working. In the capabilities-based organization, purely functional teams become more focused on the delivery of monofunctional work as well as the development of functional methods and procedures and driving functional talent development across the organization. Business units in this new model become even more customer- and market-centric (and less product-centric), and as such will play an important integration role to ensure capabilities are appropriately shaped toward customer needs.

Changing the lines and boxes alone isn't going to get your organization to work in this new collaborative way. You will need to address your organization's DNA by changing how you allocate investment and how you do planning and budgeting; rethinking what's measured and rewarded; putting in place career models that make the fluid organization a reality; and facilitating the change by shaping new behaviors.

### **Invert the Focus of the Leadership Team**

Just as your company needs a strategic effort to build the right differentiating capabilities, your leadership team will need new skills and mechanisms to shift to this new form of value creation.

You will need to step back and start thinking from a clean sheet: Do we have the right roles? Do we have the right people? Are we focusing on the right things? Are we driving the transformational change required or spending most of our time responding to the organization's short-term needs? Are we working together effectively?

Our research identified three significant actions that help leadership teams drive the transformation agenda:

- Establish your top team based on the right skills mix, rather than tenure. What roles, skills, and backgrounds are needed to deliver the capabilities you have chosen to focus on and deliver on your reimagined place in the world?
- Shift your leadership team's focus toward driving the transformation, not just responding to today's demands. What structures and mechanisms will allow you to ensure the urgent does not overwhelm the important?
- Take ownership for how your leadership team collaborates and behaves. How do you best instill the level of shared accountability and collaboration your place in the world demands?

### Reinvent the Social Contract with Your People

Engaging employees in executing a transformation has always been important, but it's now taking on a whole new meaning. Given the increasing reliance on capabilities that people help shape and the rapid pace of change, there is no way the leadership team can shape the future on its own. The only way to succeed is to adopt a “citizen-led approach”—to have employees deep inside the organization and the ecosystem keep abreast of what's going on around them and continuously contribute and innovate in a way that is in line with where the company is headed.

You will need to fundamentally rethink the “contract” you have with those people, so they bring their best to work every day. We don't mean the legal document that states the terms of employment, but the implicit contract between the company and its people that makes sure that both parties get what they need to thrive.

To get people to own where the company is headed, you will need to reassure them of their importance in shaping the company's future, even in a technology-dominated world. Digitization and automation raise fear among workers that they're going to be replaced with robots. Be clear that people are—and will continue to be—at the center of your capabilities system and will continue to be needed to harness technology in innovative ways.

Once people understand their role, engage them meaningfully: connect their purpose to the company's purpose; make sure they can contribute and be part of the solution; give them a sense of community; help them develop the skills and experiences they need (including the ability to use technology more effectively); and give them the time and resources required to build the company's differentiating capabilities.

Reinventing the social contract isn't an exercise meant to make employees feel good (though it will!). It's about getting employees and the ecosystem to opt to be on board to help you transform the com-

pany. You will need to be even clearer about where the company is headed so your people can see how everything you do fits together and can contribute to determining how—together—you're going to get there.

### Disrupt Your Own Leadership Approach

Navigating the shifting landscape of the world beyond digital presents different challenges than leaders faced just five or ten years ago—it requires a new form of leadership. The leaders we interviewed for our research consistently emphasized that they undertook a journey of personal transformation that was every bit as exciting and arduous as the one their companies took. The very nature of the transformation required bold thinking and action across the range of decisions we've articulated.

Despite the specificity of each company's—and each leader's—development journey, we have observed a common set of characteristics among the successful leadership teams. This shouldn't come as a surprise; after all, there is this common set of seven imperatives that leaders need to work through, and those imperatives require a certain type of leader. Today's successful leaders need to be both strategists and executors. They need to be tech-savvy and deeply human. They need to be good at forming coalitions and making compromises, all while being guided by their integrity. They need to be deeply humble and know their limitations and at the same time show the way and make big decisions. They need to constantly push for innovation while being grounded in who they are as a company. And they need to be globally minded as well as deeply rooted in their local communities.

All leaders will bring their own strengths to the job—but being strong in one or two of these areas is probably not going to be enough. So while you will build on your strengths, being deeply aware of this set of characteristics will help you be deliberate about your

development, seek the right experiences, and surround you with the right people who will round out your leadership profile.

### How the Seven Imperatives Fit Together

The seven imperatives are so intertwined that it would be very difficult to pick just two or three to focus on. Consider what happens if you overlook one of them. When you aren't clear about your company's place in the world, for example, you won't have a clear purpose that's rooted in how you create value for customers. You'll lack a North Star for making decisions about who's in your ecosystem and how you should partner with those organizations. When you don't build a system of privileged insights with customers, you won't understand how their wants and needs evolve and you won't know how to evolve your place in the world to keep it fresh and relevant to the customers you care about most. When you don't make your organization outcome-oriented, your people will have issues working across organizational silos and will struggle to build and scale the differentiated cross-functional capabilities needed to fill your place in the world with life. If you overlook any of these imperatives, you won't be able to address the others successfully.

On a positive note, however, working on any one of those imperatives helps your efforts in the others. Working in an ecosystem, for example, allows you to glean deeper insights into more customers from more angles. You can also combine forces with ecosystem partners, offer greater value to customers, and occupy a more ambitious place in the world. And you strengthen the capabilities of your leadership team by giving them a chance to see intimately how other companies work. In a similar spirit, reinventing the social contract with your people and engaging them meaningfully enables them to contribute to shaping both where your company is headed and how it's going to get there. People at the front lines will have a way to feed

back what they're learning about customers and make sure those insights inform how the company is evolving. They will find ways to improve how they work together in teams, further breaking down the traditional organizational silos.

We can't stress enough the importance of being clear about the differentiating capabilities your company will need to build. Capabilities are the bridge between your reimagining your company's place in the world and your ability to fill that place with life. Being very clear about your differentiating capabilities is a prerequisite for working with your ecosystem because you will have a powerful framework for determining what you do versus what others provide. Gaining privileged insights in most cases will become one of your differentiating capabilities, keeping your value proposition fresh and relevant. Your differentiating capabilities will determine what outcomes will be most important for your organization to deliver and what leaders you will need on your top team to enable the organization to do so. And being clear about your differentiating capabilities will also steer your people's efforts and innovation toward the areas where they are most needed. You, too, will see how to shape your own transformation as a leader so you can lift those capabilities to world-class level.

Our experience is that most companies will have significant work to do in most of these areas. Tackling one of two won't be enough. Working on all seven imperatives creates a true interlocking system that's going to make your company fit for the challenges ahead.

## A Road Map

We do not hold up the seven imperatives as the only path to success. But it is the only path we know of that helps leaders reimagine their company's place in the world, fill that position with life, and build the transformational muscle that will allow them to stay relevant. It

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is also an appealing path that feels intrinsically rewarding. Rather than constantly trying to react to what your growing set of competitors does, you can gain control, get in front of change, and shape your own future.

Each of the next seven chapters describes one of the imperatives that leaders need to address. Chapters 2 through 4 deal with your company's interaction with the external world; 5 through 7 turn to your internal interactions; chapter 8 is about your personal journey as a leader; and chapter 9 shares some important lessons learned about how to shape your company's journey.

This journey isn't going to be easy, and it isn't going to happen overnight. But it is a deeply rewarding one. And it is going to be at the heart of your legacy as a leader.

Let's start now.