Champions of Digital

The critical role of digital leadership

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With rapid digital innovation and continually changing customer expectations to manage, digital leadership has quickly risen to be central to steering the strategy and success of organisations. KPMG set out to better understand the nature of digital leadership in today’s organisations, and what’s next for digital leaders.
Introduction

A decade ago the role of digital was still emerging, and for many organisations, was peripheral to core operations. But digital has quickly become central to how Australia’s major organisations carry out their operations and serve their customers, placing new demands on leadership to drive digital.

In order to better understand the role digital leaders now play, KPMG interviewed a range of Australia’s leading CDOs, or equivalent digital leaders, about what the role means, how it’s positioned in their organisation, and how they see the role changing in the near future.

The interviewees were from a range of industries including retail, infrastructure, communications, sports, finance, media and government. Some were from large-scale companies, others from medium enterprises. Collectively, these organisations have annual revenues in excess of $52 billion, are household names, and reach the Australian population many times over.

The research revealed nine key themes which have been consolidated in this short report. These are:

1. Where are the CDOs?
   There is no set definition of the CDO role, and many CDOs spend a lot of time and energy defining/demonstrating their role within the business.

2. It’s digital strategy, but not as we know it
   Digital strategy setting has transformed – it is difficult and needs cross-organisational buy-in. Its funding approach has dramatically changed and it will constantly evolve.

3. Squads, chapters, tribes and guilds
   Running digital teams is complex as digital teams show huge variation, from a handful of ‘evangelist-type’ roles to more than 200 people with a wide range of diverse capabilities.

4. Partnering for success
   Most digital leaders engage with multiple external digital partners, as such, what should the nature of the engagement be and how is it changing?

5. The two speed digital agenda
   Digital leaders need to balance the demands of ‘always on’ digital operations against constant capability uplift and large-scale transformation.

6. Collaboration and influence
   Digital leaders need to collaborate extensively, and influence a broad range of their executive, to achieve their agendas.

7. What keeps CDOs awake?
   Digital leaders have a unique set of challenges – the most uncertain being continuous changes to ways of working.

8. The future of the role
   Will the most successful digital leaders make themselves redundant?

9. The next big things
   What bets are digital leaders placing on new technologies and practices for the future?

We hope the various perspectives below will help you inform your own thinking about how a CDO can enhance the digital and customer needs of your organisation.
Key findings

Where are the CDOs?

When researching this report we set out to interview as many CDOs as possible. Yet, out of the 23 we interviewed only two had a role with the title of CDO. Our findings concluded that:

– Digital leadership is not often sitting at the C-suite level
– Role titles and areas of responsibility for those driving the digital agenda are still not clearly defined.

The evolving role of digital leadership

In terms of role titles the most prevalent were Head of Digital, GM of Digital or Director of Digital, rather than CDO. This lack of consistency, and often limited role elevation, also extends to areas of responsibility. Whilst the definition of digital responsibility was varied, two predominant areas emerged:

1. Digital channel delivery: these digital leaders were responsible for running cross-functional digital delivery teams supporting an organisation’s customer-facing websites and mobile applications.
2. Digital transformation: these digital leaders were responsible for driving an organisation-wide digital transformation agenda, affecting disruptive change both within the organisation and within their category.

Many of the digital leaders we spoke to have a combination of both within their remit, although the key focus was more on day-to-day channel delivery than broader transformation.

Unlike the CMO or CTO, whose roles are well-established and understood, this variability in role title and areas of responsibility poses a particular challenge for digital leaders. Many of the digital leaders we interviewed spoke of the need to constantly educate their peers about what their role involves and its value to the organisation. One interviewee told us, “I’m constantly trying not to be seen as the IT guy.”

Inconsistent organisational alignment

Reporting lines also vary, often in line with the orientation of the organisation. In customer-oriented organisations, of which we are seeing more and more, digital leaders report into the Chief Customer Officer (CCO) or Chief Marketing Officer (CMO). There are also many organisations where digital leadership sits with the CIO. Our perspective is that this role will align more closely with the CCO and CMO over time, as digital becomes embedded as a core customer channel.

The digital leadership paradox

Given this is a frontier role which is still in flux there is no established playbook for digital leaders. The role calls for a unique set of paradoxical skills which include:

– Deep digital channel expertise (everything from design, to campaigns, to sales analytics to content), as well as broad senior management capability to enable organisation-wide transformation.
– Excellent negotiators to partner with marketing, IT and other areas, but also disruptive change agents to deliver on digital transformation agendas and innovation.
– Understanding of technology, data and systems, paired with a deep understanding of people, cultural change, future of work and automation.

Where are the CDOs?
Transition to agile strategy approaches

With the rapid pace of change in the digital domain it is increasingly difficult to create a ‘set-and-forget’ digital strategy, to drive buy-in and investment, and to then execute on the strategy over multiple years. Depending on the industry, the rate of change is too fast for a traditional strategy to remain relevant even as little as 12 months after it is written.

In response to these challenges, our findings show us that digital leaders are setting a guiding vision for the medium term (12-18 months) and defining priorities for the first 6 months. They then monitor progress as they go, re-prioritising against the vision and pivoting where necessary. The important thing is that the guiding vision remains the same whilst the delivery roadmap might change. As one interviewee put it, “we have a clear vision and an ambiguous path”.

Challenges with traditional governance models

This agile approach addresses the challenges presented by the rate of change, but poses new challenges when interfacing with traditional organisational governance models.

These include:

- The need to pivot: traditional governance models don’t easily accommodate the need to change direction (this could be the scope of a project, the product, customer segment or an entire program) based on new data or evolving customer needs.

- Attribution of impact: it is still a challenge for most organisations to clearly identify return on investment in digital spend (whether financial, net promoter score, or experience). Often a digital strategy will enable a broader corporate, customer or product strategy rather than be the direct driver of an outcome.

- Funding and outcomes: traditional governance models usually dictate fixed outcomes when seeking funding, which can be difficult to identify upfront. Agile based funding, using different KPIs from ROI, is becoming more common.
Breaking down siloes

Digital strategy is no longer a stand-alone activity. There is significant collaboration and integration required with other business functions, in particular customer, marketing, sales, product, IT and HR. Therefore the digital strategy must be fully-integrated with the overall organisational strategy and those of related business functions.

Measuring the impact of digital strategy

Measurement of the impact of digital strategies continues to be a challenge. It’s still very difficult to tell whether an investment in a new feature has had an impact on customer retention, for example. The drive to create seamless cross-channel experiences for customers means the need for alignment of digital KPIs with other business functions, for instance, in-store sales and online sales. The alignment of KPIs has been resolved in a number of organisations we spoke to, but remains a hot topic for those that haven’t yet addressed this.

Digital teams are adopting agile ways of working, with 'agile scrum' the most popular method.
Squads, chapters, tribes and guilds

For digital leaders with digital channel responsibility, a key area of focus was the complex business of establishing and running large-scale digital delivery teams.

Many digital functions within Australian businesses have experienced rapid growth over the past 3-5 years. Interviewees reported moving from approximately 30-200 people over this time, which raised a number of important questions.

**What skills do I need?**

The types of skills found in digital delivery teams are still relatively new to most organisations, with new roles emerging frequently to keep pace with change and adapt to the needs of digitally savvy customers. Finding and retaining these roles is difficult in a highly competitive talent market.

Many of these skills required have a further degree of specialisation dependent upon the product being developed (e.g. web vs. app vs. bot or IoT) and the technology being utilised.

Larger-scale teams include junior, mid and senior team members across many of these skill areas, with the senior roles being critically important to provide leadership as teams grow.

Common role types in the digital delivery teams we spoke to include:
- Research, Customer Experience (CX) Strategy, Data Analysis, Visual Design, User Experience Design, Product Management (Business Analysts/Product Owners),

**What is the right size team?**

The size of the digital delivery team depended very much on the type and orientation of an organisation. Those which were customer oriented with a significant digital channel dependency (i.e. banks, retailers, utilities, government) were investing in larger digital delivery teams of over 150 people. Those with less of a customer orientation or digital channel dependency (e.g., logistics, media, sports, education) had smaller teams of 5-30 people and overall smaller digital investments. Similarly those whose focus was more on broader organisational digital disruption had smaller teams of 1-5 people.
How do I attract and retain talent?

Digital skills are in high demand which poses a challenge when attracting and retaining the best talent. Interviewees talked about the need to have constantly interesting work to keep the best designers and developers engaged, which is not always easy if you’re a utilities or a superannuation company. Culture was also raised as a key challenge for recruiting and retaining talent as traditional incumbents are competing with the hippest digital or creative agencies on the culture front.

What are the best ways of working to adopt?

Almost exclusively, digital teams are adopting agile ways of working, with ‘agile scrum’ being the most popular method. Organisations are taking inspiration from Silicon Valley heavyweights, like Spotify. Starting with cross functional squads (or scrum teams), larger teams are leveraging ways of working from the Scaled Agile Framework (SAFe). SAFe introducing chapters, tribes and guilds as concepts to help manage coordination and growth as demand for digital outcomes exceed what a single squad is capable of.

Adopting agile working has allowed digital teams to benefit from the inherent advantages:

- Ability to rapidly adjust to change – be it customer or organisational input
- Early problem identification
- Better collaboration
- Releasing value early and consistently.

Many organisations have seen these benefits in digital and looked to digital leaders to lead the rollout of agile ways of working throughout the wider organisation. But it’s not without its challenges, with many organisations struggling with agile ways of working particularly when they interact with more traditional areas which may be uncomfortable with change.
Partnering for success

It is often a vexing question for digital leaders – to what extent should organisations engage an external digital partner, and if so, what is the nature of the engagement?

Partners can provide talent, ideas and wide experience not available in a single organisation. Key signals to consider partnering include the need to scale rapidly, the need for innovative and disruptive thinking, and a requirement for hard-to-find skills and an outsider’s perspective.

What to outsource?

Many of the digital leaders interviewed choose to augment their internal teams with external capability, from a variety of third parties like consultancies and digital agencies.

Some reported difficulty as the partner landscape is complicated. The big players have wide and deep service offerings, while niche operators are filling emerging gaps in the market. Organisations often use a complex web of partners. Some organisations outsource almost all digital production, while others prefer to keep the majority in house. What makes sense to outsource is contextual to the circumstances of each organisation, but several digital leaders described plans to bring more in-house as digital becomes core business.

Digital leaders are motivated to do this by a desire to retain IP and lower costs. This can create challenges for organisations to recruit and retain talent, particularly if an organisation’s culture is not ‘digital first’.

Partner, not vendor

Digital leaders reported that third parties frequently perform business-critical activities and their performance can be essential to their success.

However, respondents spoke to the nature of the engagement with third parties as vital to the creation of value, citing that most value is derived when a genuine partnership is created, as opposed to a typical buyer/supplier type relationship.

Digital leaders who have successfully set up arrangements with third parties talked to this partnership dynamic beginning with procurement. A thorough understanding of the digital partner landscape is required, and a partnership model is considered from the very beginning when setting up the commercial arrangement and relationship. These engagements need to be carefully designed to consider the right size, experience, skills, people, location, responsibilities and price. Cultural fit and integration into existing teams were nominated as key to successful partnering and ultimately, the achievement of digital objectives.
Digital Leaders often find themselves balancing the needs of day-to-day operations and driving transformation and change, which requires a high degree of skill to balance longer term value with shorter term reactive goals.

**Mastering the day-to-day**

As digital channels become more embedded in the fabric of organisations, some aspects of the role become business as usual. These operational aspects of day-to-day digital delivery take up much of the focus of the digital leaders we interviewed, and include:

- Digital marketing activity: this includes campaign management, social media support and communications, analytics and promotions and offers
- Maintenance of websites, mobile sites, apps etc.: this includes activities related to the ongoing delivery of digital experiences such as UX enhancements, content updates and new feature development
- Fixing and upgrading legacy systems or integrations
- Upgrading infrastructure and systems, joining up data to complete a view of the customer journey, and measurement and ROI.

**Driving transformation and change**

In many organisations these day-to-day demands are considered the baseline. Digital leaders are also responsible for large scale transformation, change and capability uplift.

Large scale transformation may involve the replacement of key systems, the re-imagining of customer experiences, the introduction of new processes, products and services or a combination of all of these activities. Frequently they are undertaken through a series of major projects, wrapped up in a program with ambitious goals that expand well beyond the traditional organisational boundaries of digital. Digital leaders play a key role in delivering the transformation agenda by setting the strategy and roadmaps, aligning the customer journey, defining new ways of working and setting the technical strategy. Additionally, socialising the plans and getting buy-in is a critical activity for the most successful digital leaders.

Digital leaders need to be prepared to lead teams that have mastered the day-to-day, but also simultaneously drive transformation and change. To meet that need, leaders need to continuously invest in self and team re-skilling as the experiences that make a good channel manager, or production team leader, are very different to those needed to direct an organisation-wide program of transformation.
Collaboration and influence

The most successful digital leaders are masters of collaboration and influence, our research revealed.

For digital leaders to achieve their strategic vision, they are now always reliant on other areas of the organisation to deliver in partnership.

In areas that are not under their direct control, digital leaders must collaborate and influence rather than use authority. These areas include:

**IT:** Digital leaders may need IT to stand up, maintain and make available for integration the core systems necessary to enable digital experiences.

**Marketing:** Customers expect a seamless, frictionless, joined up experience from offline to online and from awareness through to loyalty. Digital leaders must enable this through collaboration with marketing.

**Finance:** Funding and investment support. As agile programs have become the norm, the need for finance to alter its approach becomes critical to allow for fluidity in the digital environment.

Beyond these obvious collaboration points, digital leaders reported collaboration with disparate areas of the organisation, like HR, product planning or logistics, demonstrating the potential for digital innovation across the entire organisation.

**Extending influence beyond digital**

Digital leaders also have an obligation to use their unique position and skills to influence the entire organisation.

Consider the impact of agile ways of working as an example. While agile has its roots in software development, agile principles have proliferated throughout organisations, where many teams from finance, to operations to HR now work in sprints and use agile ceremonies.

It’s this type of thinking that CDOs can use to build influence in organisations.

Beyond agile ways of working, prototyping, hackathons and automation are all examples of concepts that CDOs are familiar with, but which many other parts of organisations would see as innovation. The practical implementation of emerging technology and techniques can work to increase the visibility, trust and influence of digital leaders on the overall organisational culture.
Digital leaders have a unique set of challenges. As their remit and responsibility has grown, and impacted on the customer’s perception of that company or service, so too has the pressure to perform and demonstrate results.

The top five challenges keeping digital leaders awake are:

1. **Changing ways of working:** The adoption of agile methodologies across IT, digital and the wider organisation is still not yet fully complete or understood. While the technology and practices to seamlessly run experiments to test, learn and optimise is mature and widely available, many organisations are not culturally ready for this change.

2. **Selling the vision internally:** Some CDOs are still having difficulty getting executive buy-in for transformation and uplifting the capability of their organisation. Increased difficulty was at times related to low levels of digital literacy amongst senior executives, which extended to misunderstandings regarding how digital can improve or impact a customer’s outcome. Additionally, digital programs often need the whole organisation to buy into the investment and benefits, increasing the number of stakeholders to be convinced. The creation of digital strategies that focus on understanding the customer and their experience, personalisation, using data better and core digital infrastructure are essential in getting buy-in to the vision.

3. **Keeping pace with technology and customer needs:** Large organisations often struggle to keep pace with changes in customer needs and the technology that powers it. Customer expectations for one industry are influenced by other unrelated industries.

4. **Growing pains:** As digital permeates all aspects of business, the demands on digital teams have increased. Teams have grown quickly. This has created challenges in recruiting and retaining talented staff, and in structuring the team effectively within the context of the broader organisation.

5. **Building executive relationships:** Executive relationships often prove the deciding factor in the success of CDOs in driving their agenda. These relationships can be a challenge to maintain when digital literacy is low, digital is at times growing at the expense of other areas of the business, and when digital is dependent on other areas of the business to achieve transformation or capability uplift.

We also found that many organisations still work in silos and digital has not yet evolved to be the cross-silo integrator.

For example, if a customer has a seamless experience using their banking app, that forms their expectations of how their health insurer should interact. A great experience in one industry lifts the bar for all.
The future of the role

It is still hotly contested as to whether organisations need a specific CDO role – even amongst digital leaders themselves as our research revealed.

Digital at the core

It was the opinion of some digital leaders that digitally evolved, customer-centric organisations may no longer need c-suite digital representation as digital delivery becomes business as usual. The organisations may be pure-play digital offerings, or may be a more traditional business that has simply embraced digital ahead of the curve. In these organisations, our analysis revealed that it is everyone’s responsibility to ‘think digital’, rather than digital being performed by a particular team or led by a CDO. Achieving this state was considered by some digital leaders as the ultimate mark of success, whereby they make their role redundant and move on to new challenges.

The role of the c-suite in digital transformation

However, not all the organisations we spoke to are in this position. For those organisations that are earlier on the digital journey or looking to significantly disrupt themselves or their category, digital leaders reported the need for c-suite representation to champion that change. In these organisations, systems need to be modernised and integrated, talent needs to be nurtured and enhanced, and culture needs to be influenced to bring digital to the fore. In some cases, entire business models need to be re-evaluated in light of the transformative nature of digital technology.

This category represented the majority of organisations we spoke to in 2019, and given the timeframe required for large-scale transformation, will likely continue to represent the majority for years to come.

“We’ll either run the company or not exist.”
CDO, Energy Company
There was a range of debate in our research about the prevalence of emerging technology and practices and the extent to which digital leaders should pay them attention, invest in skills or prepare.

**Digital on the inside**

A number of our interviewees either had responsibility, or a desire to assume some, in the digitisation of the organisation and its products beyond the channel.

As the expectation of the customer turns to the expectation of the employee, most organisations are investing in internal digitisation in different guises, be this robotic process automation (RPA), AI, advanced data sciences, IoT or other digital trends.

Organisations were achieving this through a variety of use cases:

- Digitising front-office processes through the introduction of automated support, seamless payments, or robotic account authentication.

- Streamlining of the middle office via RPA within supply chains, enabling of partner relationships through APIs rather than files or manual processes.

- Removal of low value back office tasks through AI-based finance processes, personalised learning recommendations within HR or machine learning in legal teams.

**Digital nirvana**

It is too early to see how this internal and ecosystem evolution of digital will play out. However our research indicates that digital leaders see themselves as increasingly important to bringing new thinking into the organisation and helping their teams in different domains understand the opportunities that it presents; enabling them to focus on higher value activities and replacing the mundane with digital solutions.

One digital leader we spoke to said: “My focus is not on the channel, it’s changing the category.”

In some cases, entire business models need to be re-evaluated in light of the transformative nature of digital technology.
Conclusion

Our research aimed to better understand the challenges facing digital leaders today. It revealed that digital leaders are diverse in their background, title and responsibilities within organisations. For many of these digital leaders, there is still work to be done with their peers on ensuring the understanding of the digital remit, and the value that can be delivered within organisations.

It won’t be easy given the challenges of setting a vision and strategy in the fast paced digital environment, structuring and running internal and external teams, juggling operational demands and aggressive transformation agendas, and collaborating with and influencing organisational leadership.

It is clear that digital leaders can provide great value to a wide range of organisations and will continue to do so over time.

KPMG intends this research to continue over the coming years, monitoring the evolution of the role and supporting digital leaders to understand and overcome the challenges they face.
Contact us

If you’d like to further discuss the contents of this report, or how KPMG can help address your organisation’s digital challenges, please get in contact with:

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