

Digital Transformation: Learning to Take the Fight to Pure-play Rivals

Analog CEOs often think defensively when they are confronted by pure-play tech start-ups that siphon off parts of their business. Perhaps a better tactic is to go on the offensive and become the digital aggressor. But it takes guts and a willingness to risk cannibalization of the analog business to stake a claim in digital. To be prepared to take the fight to digital disruptors, CEOs must learn to be comfortable with the digital landscape even if they do not need to possess detailed technical knowledge. So who teaches the CEOs? They can learn from academia, start-up entrepreneurs and staff as well as by attending conferences and immersing themselves in digital environments. As they are deluged with digital information, leaders can find an oasis of stability by focusing on the company's raison d'être and the customer.

Knowledge@Wharton recently discussed this topic with Ganesh Ayyar, who is the CEO of Mphasis, an IT services company, and Kartik Hosanagar, a professor of Operations, Information and Decisions here at Wharton.

An edited version of the conversation follows.

Knowledge@Wharton: Thanks for joining us for this conversation about how CEOs and other leaders can get the digital skills they need to lead their companies in the new digital age.

Some observers note that CEOs do not necessarily have to have all the technical skills that their technical staff has, obviously, but they have to at least be comfortable with IT and with digital topics. How do they get that information? Is this knowledge best to come in through mentors or learning through experience? Who can train the CEO to be a digital leader today?

Ganesh Ayyar: It is a very interesting question and let me draw upon my own experience. When digital started coming through in the industry, some people saw it as a disruption, some people called it a revolution. As a CEO, I took a step back and said, "am I the right person to lead this company in the digital world?" We are in IT services, clearly at the leading, bleeding edge of digital. I decided that despite my being 54 years old with 30 years in the industry, it cannot ... prevent me from learning and picking up these skills. I felt compelled that as a CEO, I needed

to learn so that I can work with my team to take Mphasis into the digital era.

I went and spoke to educators ... [and] understood their point of view. I went to startups: Amazing work is being done by these youngsters. They are challenging the status quo [with] innovation — the language is different, the way they think is very different. Of course, you have forums where people come and talk about digital ... and you get to learn there. I went to conferences ... because I wanted to experience what goes on in the real world. ... Books are a good source of knowledge, but it does not give you vibrancy because there is no interaction. But talking to practitioners and professors, as well as young people [was educational].

I had to lower my ego. I had to be prepared to fail, and I had to admit that I needed that knowledge and that the source of knowledge can come from anywhere. I need not feel ... that I cannot go and learn from somebody down below in the organization — youngsters or at these conferences — and that helped me a lot.

Knowledge@Wharton: Kartik, what's been your experience? How are CEOs getting their information or how should they be going about it?

Hosanagar: First of all, I appreciate the nod to professors very much.

Ganesh's answer really resonates with me, as well. What is important first and foremost is for leaders to be open to learning and have that attitude of exploration and trying to acquire new knowledge. They do need mentors, especially analog CEOs who are trying to make this transition, and those mentors may be within the organization — for example, to include your C-suite executives and CIOs in key strategic discussions and conversations. They can also be from outside and Ganesh mentioned startups. It is actually a very helpful exercise for very traditional, analog CEOs to be actively following that industry and to perhaps even actively participate in that. We see many companies have corporate venture capital divisions through which they partake in the startup activities as investors. And sometimes they invest in opportunities that even appear competitive to what they are doing, but that is the way to learn, that is the way to stay relevant. And that is a way to be able to respond when the time is right.

Knowledge@Wharton: How do you sort through that information after listening to your mentors and listening to your technical staff?

Ayyar: One point about technical staff: The world has misunderstood that digital is about technology. Digital is about business and technology enables business, so the distance between technology and business is blurring now — [and the relationship of the two] has become integral. To that extent, if I just rely on my CIO or technical staff to give me advice about digital I would probably not be doing the right thing by just relying on that information.

How do I separate music from noise? How do I convert my knowledge or experience into something useful for the company? I watched

this video, which was very fascinating, that talks about why you exist. ... [You have to be] clear as to why you exist and [the answer should go beyond] generating shareholder returns.... You have to talk about what is the value that you bring to your customers, your employees and the society at large. Why do you exist? ... Our mission is clear as to why we exist and that became my guiding principle. That helped me to separate music from noise.

The second thing that helped me is that as this [digital] disorientation was happening, the axis I'm hanging onto is my customer. Ultimately, my job is to make my customer successful. If you hang onto your customer and make sure that you are closely knit with your customers, it will give you that axis of stability. These are the two things that have guided me and time would tell whether I will be successful in it or not.

Knowledge@Wharton: Kartik, what is your advice on how they could separate the noise from the music?

Hosanagar: There is certainly going to be a temptation to adopt the next buzzword in your organization. If everyone else is going to the cloud, I need to go to the cloud. If everyone is on mobile, I need to be on mobile and so on. And that is going to be truer where I think the CEO feels less comfortable with their knowledge of the digital domain. I go back to what Ganesh was saying that it is not really important or necessary for a CEO to be a technologist. Digital transformation is not fundamentally about digital. It is about digital being an enabler of a business mission or a strategy.

At the end, CEOs have to understand technology to the extent of knowing what it can or cannot enable. And once you understand what technology can or cannot enable, there is ... [a] consideration of what does your customer want and are you able to deliver unique value? When you put the two together, that is where they can succeed. But also, to your point about there being a lot of noise, in this kind of environment I feel

business leaders have to also accept that there will always be a certain amount of noise in the market and in the landscape and they have to be willing to take a few more risks than usual because of that.

Ayyar: I completely agree. We need to be prepared to fail.

As you get to the position of CEO, one of the things that happens is they are very afraid of failure because they are worried about their public face. You have reached that height and the fall can be huge. We need to overcome that fear.... When you try 10 things, it's okay if you fail in three. As long as you fail early, you cut your losses, it is okay. But not trying is not an option, at least in my mind.

Hosanagar: That is so important. I've worked with many companies and I have always noticed there is this tendency [to fear failure]. As you said, the higher you are, the more fear you have of falling from that height. There is this tendency among a lot of companies to be more risk averse and manage everything about what can go wrong, as opposed to what is the opportunity [that beckons]. That is why startups can sometimes pursue those big opportunities because they are not as worried. But I think CEOs need to embrace failure as a natural part of innovation.

Knowledge@Wharton: A lot of top leaders recognize that they need to do this digital transformation in order to protect themselves from pure plays — startups and that sort of thing. How can leaders actually protect themselves from these so-called “asymmetrical challenges”?

Ayyar: The mindset that I have is that I do not have to worry about protecting myself. I have to focus on attacking, because an attack is the best form of defense. I see digital as a huge opportunity for an IT services company; I see that as a huge opportunity for Mphasis.

I see this as a shuffling of the deck and if we do the right thing, we will come up on top of the deck. So I don't worry about protecting [my turf].

I think about what is the advantage I have versus the pure-play [competitor] and I want to deliver that advantage in this new world of digital.

Of course, I have to deal with the challenge of duality. I am not going to give up on my analog overnight being a listed company. And yet, I have to adopt digital. That duality is an additional burden that an organization like mine carries. But what comes with the duality are certain strengths. If I have worked with the customer for the last 12 years and they trust our brand, they believe that we care about their success, a new player who comes — and despite being glamorous — will have to prove themselves. If I can leverage that inherent brand value, that is something they do not have.

The second point that I want to make in all this is, of course, CEOs get either slaughtered or glorified [in their attempts]. But none of this is possible if you are not taking the entire village with you. Success can never be achieved alone, especially if you are a listed company CEO. You need to find the [team] who is supportive, who is willing to be the challenger, who is willing to back you. You need to have a leadership team that believes they want to change as well to be successful. ... These are the factors that you have to keep in view while you are trying to transform the organization and to inject the excitement that we are going to win and we are going to win big.

Knowledge@Wharton: So Kartik, the best defense is a good offense? Do you agree with that? And what would you add to it or how would you disagree?

Hosanagar: I agree with what Ganesh said [and] I will suggest a couple more tactics as opposed to an alternative strategy.

Strategically [becoming] ... aggressive as opposed to being defensive — how do we do that? One way might be to create a structure within the organization that allows you to pursue new digital opportunities.... Oftentimes for large, successful ... analog organizations, new digital opportunities may not meet your standard

litmus test — is the market size big enough? Is it meeting the needs of my current customers and so on? Five years, 10 years down the road, it might, but not today. And so it becomes hard to pursue those opportunities in the traditional structure. You need to create a structure to be able to pursue that.

Second, sometimes those opportunities will cannibalize your traditional revenue streams. Ganesh said you cannot ignore your analog opportunities, which are ... delivering shareholder returns today. ... When you are cannibalizing your cash cow, at some point you are going to say, 'let us shut this new opportunity' — so you need to create a structure to be able to support that [digital operation].

One structure that I particularly like is when you spin off divisions, you might control them, but also let them work semi-independently to be able to pursue those opportunities. And at the right time, you decide whether you kill the initiative, let it continue in the format, ... spin it off as a separate entity or bring it back in and this is your new main cash cow.

But at the end of the day, [it is critical to acknowledge] that cannibalization is going to be the nature of digitalization and you have to support that cannibalization by allowing new initiatives to be independent. ■