AlixPartners

BORN-DIGITAL

GROWING UP DIGITAL: LEVERAGING HUMAN RESOURCES AND TALENT MANAGEMENT

Too many fast-growing born-digital businesses take shortcuts with HR and talent management. They can get away with that only for so long, and then the consequences strike. Those that infuse discipline and rigor into their talent management strategies—early on—will stand the best chance of sustaining their earlier successes far into the future, even in the face of unprecedented challenges such as the COVID-19 pandemic.

WHAT'S THE DIFFERENCE?

BORN-DIGITAL

Born-digital businesses were typically founded after 1995. Their operating models and capabilities center on using internet-era information and digital technologies to achieve competitive advantage and drive fast growth.

STRENGTHS

- Agility
- Speed
- Direct and continuous customer accessibility
- Automation
- Extended workforce and openness to external partners

CHALLENGES

- Difficulty scaling up
- Need for leaders to learn on the job
- Non-existent or immature governance processes
- Limited experience in scaling operations while managing risk
- Diversity

BORN-TRADITIONAL

Born-traditional companies arose from the working principles of the Industrial Age, pre-internet economy. Their operating models and capabilities center on using physical assets and focusing on product development to gain a competitive edge.

STRENGTHS

- Governance
- Business processes
- Regulatory knowledge
- Risk management
- Operational expertise

CHALLENGES

- Vulnerability to the pace of change driven by digital technologies
- Separation of IT from the business
- Slow product development
- Cultural inertia at odds with agile innovation
- Legacy systems

ABOUT ALIXPARTNERS' BORN-DIGITAL STUDY

Given born-digital companies' unique blend of strengths and challenges, AlixPartners set out to research these enterprises' most pressing needs and areas they should focus on to sustain their success. Our study was comprised of several key components:

- **INTERVIEWS.** We conducted 12 in-depth interviews with C-suite executives and board members from born-digital companies. The companies represented were based primarily in the US.
- **ONLINE SURVEY.** We executed an online survey of C-suite executives from both born-digital and born-traditional companies. The survey was fielded primarily with companies based in the US and split almost evenly between the two types of companies.
- **CLIENT PROJECTS.** We drew on insights gained from decades of experience and projects we've done with both types of companies.
- **SECONDARY RESEARCH.** We conducted extensive secondary research to include publicly available data (such as SEC filings), industry reports, and media content.

The interviews and the online survey explored a rich array of topics—including what respondents saw as their company's top strengths and challenges; where their enterprise focused its resources and efforts; how they approached partnerships with other companies; and how they managed crucial activities such as talent development, operations, and alignment of top executives with the company's strategy.

"Culture is key. It is very rare that a management team understands how to hire and who to hire for the time when the company becomes much larger and more complicated. Companies are almost always behind on this topic, and we almost always strongly encourage them to hire a world-class chief talent officer to get on the journey quickly. It is a critical path."

— Senior private equity executive

It's no surprise that given their rapid growth rates, when it comes to steering the areas of talent management and human resources (HR), born-digital companies are almost always behind in applying the elements of best practices: recruitment and retention, providing feedback, career development, employee rewards and compensation, workforce diversity, organizational design, executive alignment, and succession planning. And, we find that three other conditions often exist.

1 A limited HR function causes the bulk of execution to fall to a severely overtaxed line management team, with predictable results.

2 When a satisfactory HR function exists, it is typically understaffed both from capability and scale standpoints.

3 Many HR professionals continue to recruit, develop, and align digital talent and teams by using the rearview mirror. In other words, HR professionals are using frameworks and work-skills definitions that are usually based on those used by analog companies and those pertinent to more traditional talent management practices.

When born-digital companies are in the stages of rapid growth, they must both recruit and retain people with various capabilities that are in high demand. In an environment like this, an argument could easily be made that a world-class HR function is the most important ingredient for sustained success. But we find that at virtually every born-digital company, management, boards, investors, and employees say they feel that HR is an underdeveloped area and one in need of genuine leadership.

By strengthening their leadership on this front, born-digital businesses can not only sustain successful growth; they can also better position themselves to respond quickly and flexibly to unprecedented challenges, such as those arising from the pandemic.

ONLY 19%
of born-digital companies prioritize documentation of expectations and metrics in fostering board alignment with the senior management team.

ONLY 35%
of born-digital companies reported having succession plans in place for their CEOs and other senior leaders.

62%
of born-digital companies reported that their turnover rates were at or above industry norms.

BORN-DIGITAL'S PRIORITIZED AREAS TO INVEST IN FOR GROWTH

Born-digital companies rated the area of talent and culture low on the list of areas to invest in for growth—as fifth out of six options—followed by organization and governance in sixth place. However, born-digital companies consider talent and culture as their second biggest current challenge—second only to operations.

|	WHAT ARE YOUR TOP THREE OPERATIONAL CHALLANGES	IN THE FUTURE, GROWTH WILL COME FROM SEIZING THE FOLLOWING TRENDS
PRODUCT AND BUSINESS MODEL	3	1
OPERATIONS	1	4
CUSTOMER EXPERIENCE	5	3
DATA ARCHITECTURE AND MANAGMENT	4	2
ORGANIZATION AND GOVERNANCE	6	6
TALENT AND CULTURE	2	5

"You have to not only bring talent but also bring different people—from the kinds of people who start a business to the kinds who can run it. We had to hire a whole HR department of people who carry the battle scars. Then, on top of the normal HR challenges, you have to scale the people you have. Companies go from founders to professional managers and from early, small-company employees to later, large-company employees. Not only do you have to deal with people management issues, but now you also have people turnover."

— Born-digital company board member

TOP 3 STRATEGIES TO ATTRACT, RECRUIT, DEVELOP, AND RETAIN TALENT

Both born-digital and traditional companies prioritize focus on competitive salaries and the work environment to attract and retain employees. Born-digital companies rated development opportunities as number three, whereas traditional companies rated autonomy as number three.

BORN-DIGITAL   **BORN-TRADITIONAL**

COMPETITIVE SALARY   **COMPETITIVE SALARY**

WORK ENVIRONMENT   **WORK ENVIRONMENT**

DEVELOPMENT OPPORTUNITIES   **AUTONOMY**
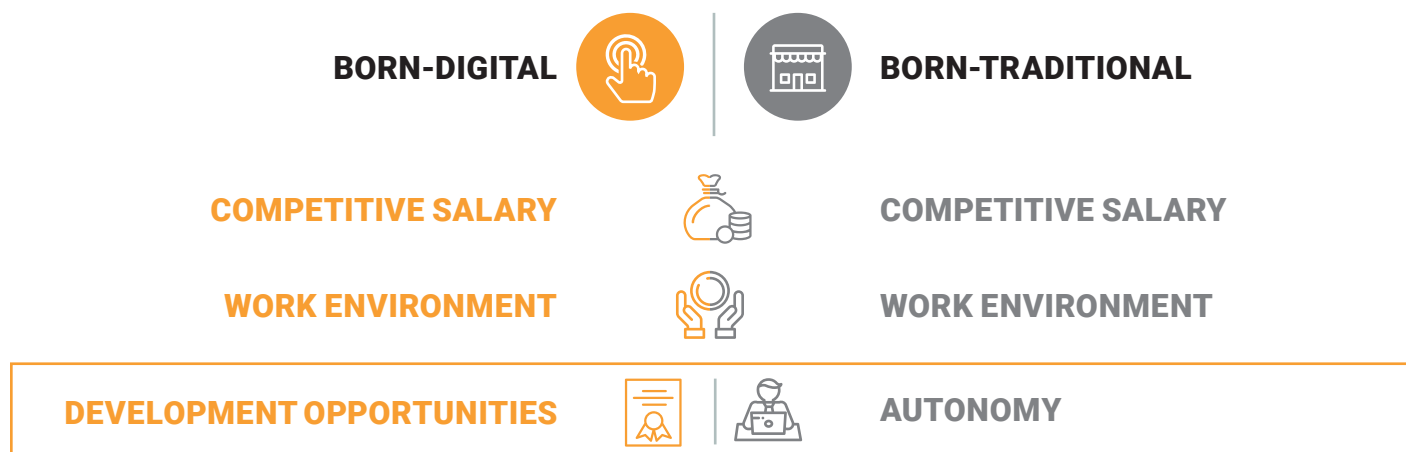
Another aspect of effectively integrating and running HR processes at born-digital companies that merits mention is the degree of integration between HR and the line operation. In a company that has been around a long time and that is not growing as rapidly as it used to, it's possible to build an HR function that is more independent and that operates as a service to the operations of the business. In our interviews with born-digital line managers, we detected a strong need for HR to be tightly integrated with business operations because things are moving and changing so rapidly that without tight integration, HR runs the risk of being too disconnected from the business to be effective.

So, what is a born-digital company to do to scale effectively—from an HR perspective? Our takeaways are as follows.

"The question is, what's the role of HR? As a company breaks out of the evangelist process and as the halo effect of the founder ceases to be the recruiting draw, HR talent by itself cannot step up to leading in that area. Recruitment now falls to the line, which is not our core competency and which does not allow us to scale with reliable and predictable human capital talent. And though it's likely the most important thing to do, we don't focus on becoming world-class. HR folks are just too removed— not close to the business. And the farther up you move in HR, the more removed you get from the business."

— Born-digital senior operating executive

LEADERS' TAKEAWAYS

1 Hire a deeply qualified leader early who knows how to develop and run a quality human resources/talent management function, as well as how to work with management and the board to develop—and sustain—a highly functional and pertinent organizational structure as the company grows. The person should report directly to the CEO.

2 Make sure the CEO and the executive team understand the talent leader's role, the position's centrality and strategic importance, and the removal of any obstacles or resistance early in the appointment.

3 Embed HR resources directly into the line functions they serve. That doesn't mean the resources have to report to those line areas. In fact, they should not. But given the pace of growth and change and the need to be in touch with the culture of the firm, decentralization of the operation is a good practice for the scaling of Born-Digital companies.

4 Emphasize the necessity of a build-out of quality human capital performance-management processes. Certainly, all professionals crave feedback and development, which is especially true among younger employees that born-digital companies are trying to attract and retain. And even though compensation will always be an important factor, members of this demographic crave feedback on which to base the development of both themselves and their careers. Most younger professionals today—especially those drawn to jobs in born-digital companies—are active learners inherently impatient with their careers, and so they need—even demand—to see clear paths ahead for them if they remain with the organization. They understand well the rapidity of change, and they know intuitively that their own skill development must keep pace. Therefore, best practice dictates that every professional have a development and career plan and receive frequent and actionable performance feedback.

5 Start succession planning now. Born-digital companies are thinner in the management ranks than their older, born-traditional counterparts are. So, when a key executive departs, it can leave a big hole in the team, thereby compromising the ability to get things done. Succession planning should therefore become an evergreen process that is designed by the head of HR/talent and led by the CEO. All of the key, value-creating roles should be profiled, and high potentials should be assessed against those roles as ready now, ready in one year, and ready in two years. The board should request a review of talent twice a year, and the CEO should lead the discussion.

6 Install someone on the board who is experienced in the development, building, and sustaining of high quality HR/talent management organizations. Such a representative helps the CEO learn the value of that function, and gives line executives an advocate at the board level to influence direction and policy.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.