

BORN-DIGITAL

AVOIDING THE TALENT TRAP THREATENING BORN-DIGITAL COMPANIES

Founders of born-digital firms are typically brilliant, but too many of them make a common mistake: hiring people early on who are friends, who have backgrounds similar to their own, and who look and think like them. Result? The business lacks the diverse talent needed to respond creatively and swiftly to tough challenges that arise in the future—whether it's fast-changing customer demands (at best) or a global pandemic (at worst).

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
- Nonexistent 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 comprised 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 United States.
- **ONLINE SURVEY.** We executed an online survey of C-suite executives from both born-digital and born-traditional companies; primarily from companies based in the United States, 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.

“You have companies that have left certain areas of their organization on the side for a period of time—whether it’s the finance department or compliance or the tech stack—depending on whatever that second- or third-most-important thing was that they just didn’t focus on.”

— Managing Director, private equity firm

We've all read the headlines about high profile born-digital companies that run into walls that could have been avoided; all too common are data security, privacy, corporate governance, and communications missteps- in addition to the issue of disillusioned and angry customers. The COVID-19 pandemic escalated business challenges far beyond those common scenarios. If the firms had brought in board members and operating executives who had had risk management and corporate governance experience sooner, could the firms have avoided the costly mistakes that destroy value, that damage brand images, and that cause customer defections?

We think the answer is almost certainly yes. Indeed, many of the born-digital executives and investors we interviewed for our study expressed concern about whether they were introducing the right mix of experience and capability early enough to avoid the kinds of mistakes that can hurt companies' reputations, slow or even arrest their growth, and destroy shareholder value—whether during normal times or during times of crisis. And though stories about high-profile, large-cap enterprises are more well-known, small-cap and midcap born-digital companies often fall into the same talent trap as they grow.

It may seem obvious that bringing in the right mix of corporate governance and larger-scale operating experience early on in the process is smart business, but too many born-digital companies fail to meet that imperative. Why? Multiple reasons, ranging from the founder's mindset to the speed at which these companies scale, to culture fit considerations.

"Founder mentality exists everywhere. Early-stage investors want to scale to exit. Not many entrepreneurs can scale from idea/control guy to enabling others to run it. Then, many times, the experienced players coming in are unable to adjust and adapt to the new world."

— Senior private equity executive

FOUNDERS' MIND SET: IF YOU'RE LIKE ME, AND I LIKE YOU—YOU'RE IN

Founders of born-digital enterprises are often brilliant, driven, and focused. Those attributes clearly contribute not only to a founder's personal success but also to the success of the founder's company. But they can also blind founders to the importance of adding people with extensive operating experience to their boards and management teams.

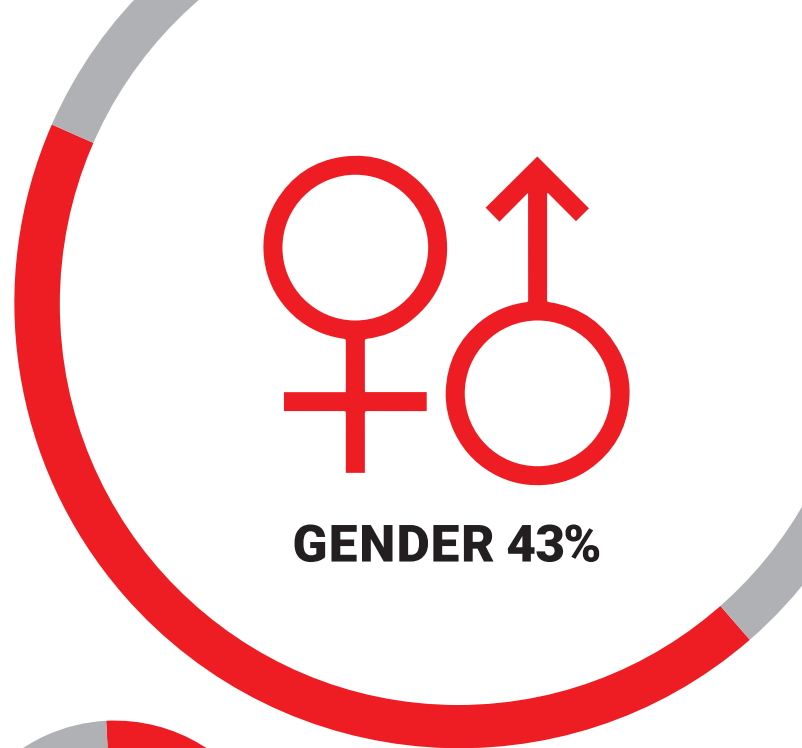
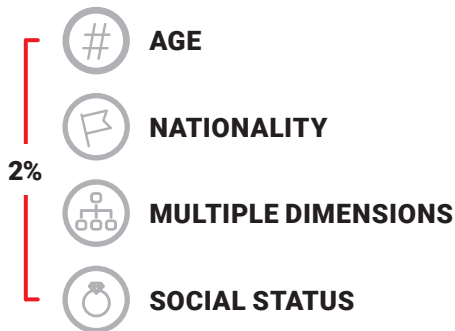
"Companies must ask themselves, 'Do we have the right person in this role for what we have to achieve at this time?'"

— Software company Chief Marketing Officer

In fact, we've seen that many founders have a set of go-to people they put on their boards and executive teams: individuals they know, like, trust, and can easily communicate with. Human nature being what it is, the people in a founder's inner circle usually think, act, and look like the founder. They may even have the same strengths and weaknesses the founder has. Result? A leadership team that lacks diversity on many fronts—not only gender and race but also, and perhaps even more important, business experience. In our view, lack of experiential diversity at the top makes a management team vulnerable to missteps that have dangerous consequences.

BORN-DIGITAL BOARDS EMPHASIZE GENDER DIVERSITY MORE THAN ANY OTHER FORM

Survey response: The dimensions of diversity that our board actively seeks to acquire/build/retain/nurture are:



SCALING SPEED: SO BIG BUT OH, SO YOUNG

Many of the investors we interviewed pointed out that the speed at which born-digital companies scale can create a mismatch between their size (quite large) and their age (quite young). But even though the company may become sophisticated and complex as it grows—for example, in how it uses and sells customer data, or with regard to the multiple jurisdictions and therefore regulatory environments it operates in, or in the multiplicity of products and services it offers—the company is chronologically young and therefore falls prey to common pitfalls like not providing the right levels of customer service, not anticipating the unintended consequences of customer data usage, not building out reliable and robust supply chains, and myriad other challenges that come with scale.

When asked to identify their top challenges, most born-digital respondents cited operational excellence and talent management.

“It is very rare to see a management team that understands how and whom to hire when the company becomes much larger and more complicated. Companies are almost always behind on that topic, and we almost always strongly encourage them to hire a world-class chief talent officer to quickly get on the journey. If a company gets off to a good start, it can point to its success to say it doesn’t have to do this stuff. Which is of course wrong, but it’s hard to convince them of that.”

— Successful tech investor

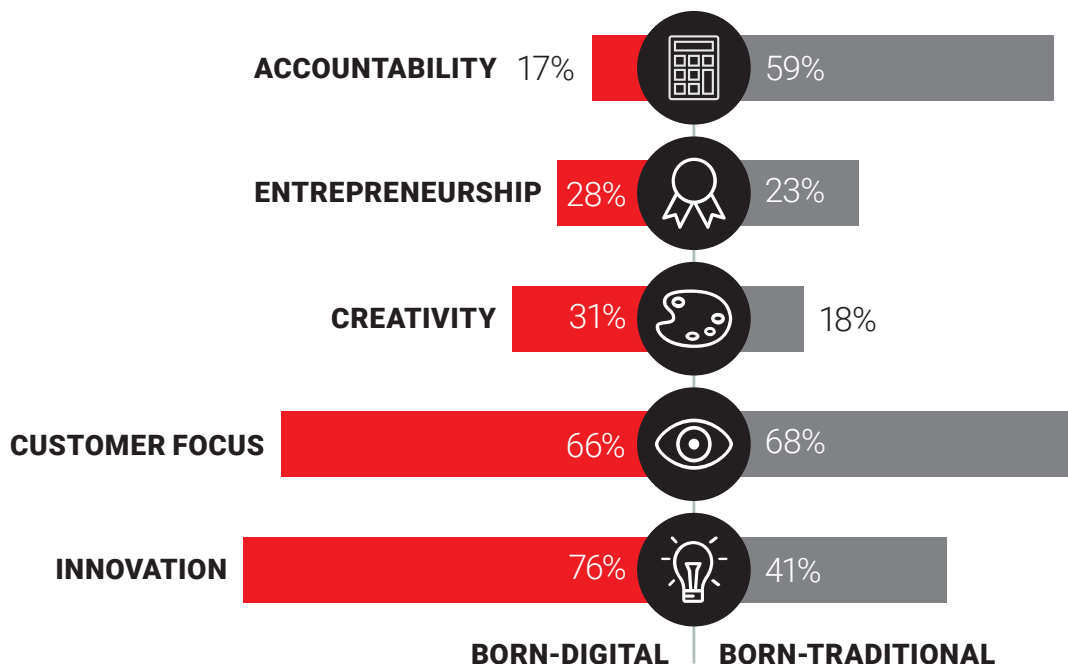
CULTURE FIT

We spoke with many born-digital executives and some investors, who described how difficult it is to bring in people with strong experience in operating a company that's growing fast. Such people must be able to assimilate quickly into the distinct culture of a born-digital business that's rapidly scaling up. If they come from traditional companies—ones that are risk averse and utilize a centralized-authority model with a command-and-control organizational structure—their philosophy may emphasize security of data, redundancy of technology, and control of business processes. But the born-digital business they get hired into philosophizes decidedly differently by instead emphasizing growth, innovation, and risk taking.

That cultural mismatch could lead to the inability of the new executive to be successful in the job's tasks. The organization sometimes rejects them, and as a result, the born-digital company may become wary of bringing in people with extensive experience in traditional companies. That's understandable—but it also means the company misses out on the diverse capabilities and knowledge it will need in order to excel as it grows. Dealing with that challenge requires both strong sponsorship from the board and CEO and the recruitment of experienced executives who have the personal flexibility and style to adjust to the new culture while remaining focused on their mission. That puts real emphasis on understanding the personality profile and demonstrated ability to deal with ambiguity during the recruiting process for outside and experienced executives.

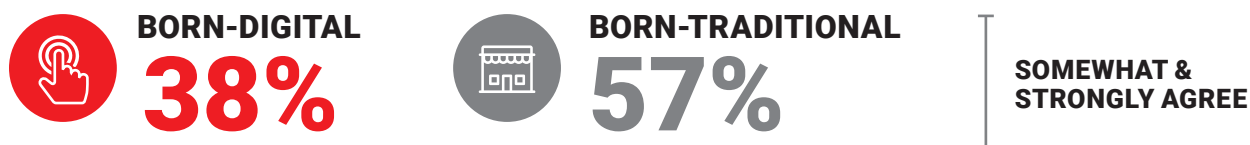
BORN-DIGITAL COMPANIES FOCUS ON FOSTERING A CULTURE OF INNOVATION AND CREATIVITY; BORN-TRADITIONAL COMPANIES PLACE GREATER VALUE ON ACCOUNTABILITY

Survey response: What are your company's top three values/desired behaviors?



BORN-DIGITAL COMPANIES EXPERIENCE STAFF TURNOVER RATES THAT ARE AT OR ABOVE INDUSTRY NORMS—HIGHER THAN THOSE AT BORN-TRADITIONAL COMPANIES

Survey response: Our staff turnover rates are well below peer/industry norms



LEADERS' TAKEAWAYS

- 1** **Diagnose the degree of experiential diversity** in your senior leadership team and board early, and strengthen it as needed to prevent managerial missteps.
- 2** **Cast wider nets when you're recruiting and interviewing** candidates for key leadership roles, and apply insights on the personality characteristics of potential hires—versus only relevant experience—to ensure that you're bringing in the talent needed to succeed not only today but also tomorrow.
- 3** **Invest early in a chief talent officer** and a professional human resources management team that can craft a rigorous talent strategy complete with formalized processes for vital activities such as job-performance evaluation and succession planning.

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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.

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