

Leadership matters for SMBs

Picture the ideal company for the digital economy: It is nimble. Its employees are engaged and have strong relationships with their managers and with each other, and its executives are up to date on technology and leadership skills. Decisions—from the smallest to the most strategic—are made quickly and easily across the organization.

This vision of a digital company looks a lot like that of a well-run small-to-midsize business. Indeed, SMBs should have some critical advantages over their larger competitors in the fast-paced digital world: leaner structure and less bureaucracy, opportunities for stronger and more personal relationships, less inertia, and fewer barriers to change.

Yet reality is more complicated. Most small-to-midsize businesses face the same digital-transformation hurdles and growing pains as their bigger rivals—issues that start with a lack of appropriate executive leadership.

Oxford Economics recently surveyed 2,050 senior executives and 2,050 employees from around the world and across industries about the ways leadership and organizational strategies are changing for the digital era; these surveys included a meaningful sample of SMBs. Our analysis of survey data revealed three critical imperatives for SMB leaders:

Small and midsize firms have an opportunity to leapfrog their larger peers—if they recognize and respond to the leadership challenges at hand.

- **Make your size an advantage.** Most SMB executives do not embrace the rapid decision-making or lean organizational structure needed to drive digital transformation. Small and midsize companies should set strategies for digital transformation that build on their inherent strengths.
- **Prioritize your people.** Employee satisfaction and engagement are critical to success—but many SMB leaders are not focused enough on the things that make workers happy.
- **Get comfortable with diversity.** To compete against large, global competitors, SMB leaders need to go to extra lengths to build and capitalize on a diverse workforce.

Operating in the digital economy requires companies to embrace rapid and continuous innovation, accelerate decision-making and strategic thinking, and ensure that skills are up to date for whatever may be in store tomorrow. Companies of all sizes—not just SMBs—are struggling to keep up in this new environment, but small and midsize firms have an opportunity to leapfrog their larger peers—if they recognize and respond to the leadership challenges at hand.

Meet the Digital Winners

Oxford Economics identified a set of capabilities and practices that define the best-managed companies, including decision-making, focus on digital transformation, employee development initiatives, and flatter organizational cultures. Our company-level analysis is built on the assessments of individual executives who rated the skills and strategies of management across their organizations. In short, Digital Winners are companies with executives who are better prepared for the digital economy.

It pays to be a Digital Winner. These companies:

- are 38% more likely than others to report strong revenue and profit growth (76% vs. 55% of others);
- have more mature strategies and programs for hiring skilled talent (85% vs. 64%), building diversity (56%, vs. 48%), and succession planning (72% vs. 50%); and
- have employees who are more satisfied (87% vs. 63%) and more likely to stay in their jobs if given the chance to leave (75% vs. 54%).

Only 16% of SMB executives qualify as Digital Winners—the same proportion as the overall sample. At the vast majority of organizations surveyed, digital transformation is just beginning. Organizational change starts with individual action. To become Digital Winners, companies should focus on the skills of their executives and the culture they create—and make sure incremental progress in these areas maps back to an overall digital strategy.

How executives drive digital transformation

Embrace digital technologies

- Execute on a company-wide digital vision
- Embed technology in all aspects of the organization

Streamline decision making

- Make data-driven decisions in real time
- Distribute decision-making across the organization

Flatten the organization

- Focus on reducing complexity and bureaucracy
- Offer the latest technology to all employees

Build a digital workforce

- Improve digital proficiency among managers and employees
- Emphasize transformation readiness and strategic use of technology



Developing digital leadership

Companies of all sizes need to update leadership for the digital economy: despite a widespread understanding that things must change, decision-making remains sluggish and complex, management skills are not up to date, and employees lack the technology and training they need to stay relevant.

SMB executives acknowledge the transformation imperative. In fact, our landmark report on SMBs, published with SAP in 2013, found that smaller organizations are just as focused on transforming to meet the needs of this new world as their larger peers. That finding holds true in our current study: when asked what factors will most influence their business over the next three years, employees were most likely to cite technology change and the transition to the digital economy.

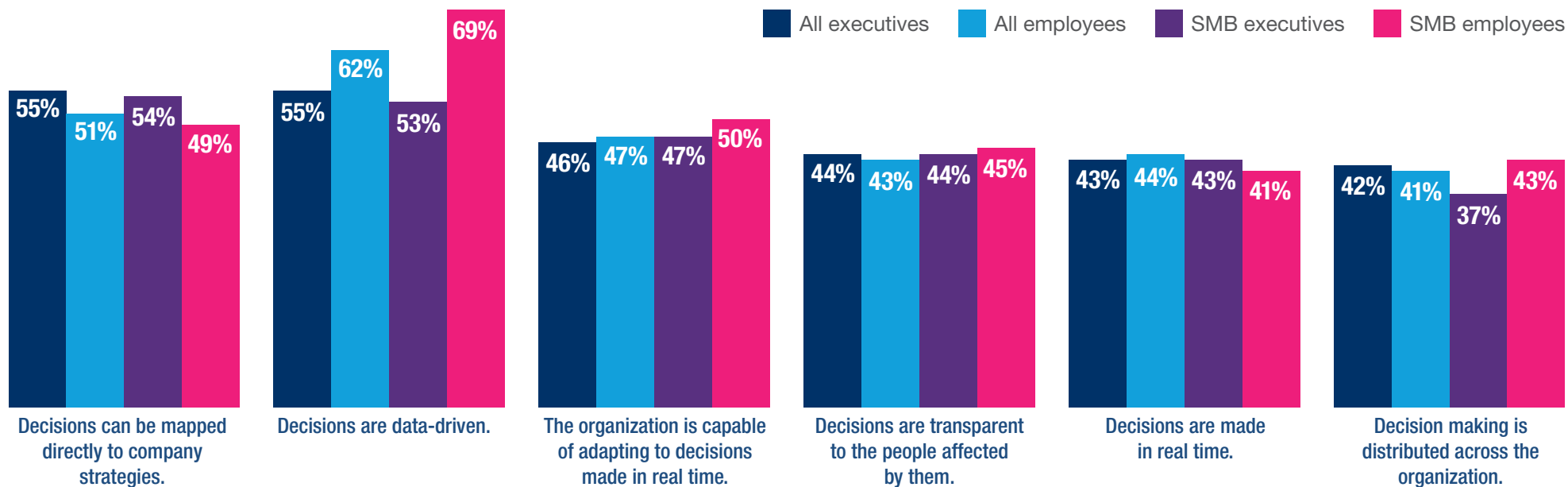
But some SMB leaders are not taking the decisive action needed to meet the demands of this new business landscape. Much like their peers at larger companies, many executives and employees from SMBs agree that mid-

management lacks essential skills for navigating digital transformation and a changing business environment. Worse, they are less likely than larger companies to give the problem adequate attention: less than 60% of SMB executives say their company is focused on improving digital proficiency among managers.

One hallmark of digital proficiency is the ability to make meaningful decisions quickly—something Digital Winners do especially well. Yet, much like larger companies, only about half of SMB executives say decisions are data-driven, made in real time, or mapped to company strategies. The good news is that a relative lack of organizational complexity should make it easier for smaller companies to change these processes—and give them a meaningful edge over larger competitors.

Decisions need to be updated for the digital economy

At the senior level/in general, how are decisions made in your organization? “Most of the time” and “All of the time” responses



Building employee engagement

Hiring, developing, and retaining top talent will be critical for SMB leaders as they face off with an ever-growing roster of competitors around the globe. SMB executives know that talent is a priority, but have yet to turn that knowledge into action: while they are more likely than larger companies to cite shortages of skilled talent as having a major future impact on their company (21% of SMBs, vs. 14% of the overall total), they are no more likely to say their company is making talent recruitment a top strategic priority.

Currently, only about half of SMBs measure employee engagement, or have plans to reduce turnover when it falls short of targets. SMB leadership also should do more to figure out whether employees are satisfied with development opportunities and benefits. Similar to employees from larger companies, SMB workers value competitive compensation, work/life balance, manager quality, and meaningful work—but their companies are less likely to offer those benefits. Just 40% of executives and 44% of employees from SMBs say their company offers competitive compensation.

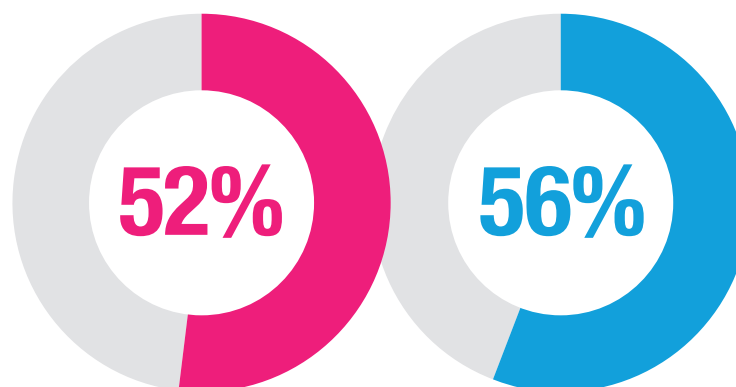
These shortfalls may explain why SMBs are struggling with attrition. Nearly one-fifth say their employee turnover rate is higher than that of their competitors—a higher proportion than for larger companies in our survey. SMB employees are less likely than others to say they are satisfied with their jobs, and only about half would turn down a comparable position with similar pay outside their company.

The most satisfied employees work for companies where decisions are made quickly, complexity and bureaucracy are discouraged, competitive compensation and other benefits are widely available, leadership understands the value of diversity, and management is proficient in a broad range of areas—in short, our definition of Digital Winners. SMBs should adjust their strategies for digital leadership to keep their employees happy, motivated, and away from the competition.

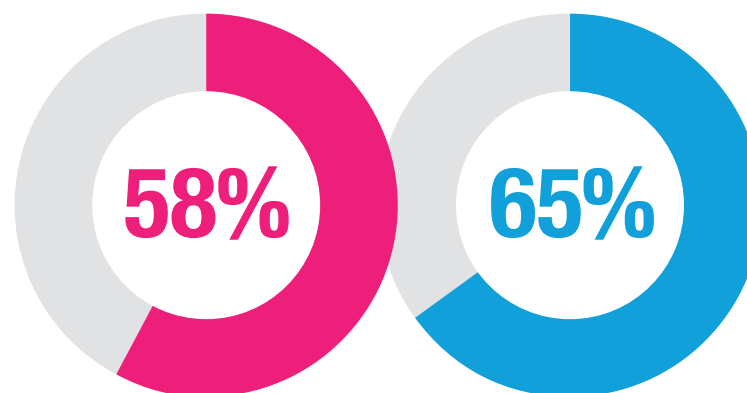
SMBs are more likely than larger companies to cite shortages of skilled talent as having a major impact on their company.

Employee engagement lagging at SMBs

■ SMB employees ■ All employees



of employees are unlikely to leave their jobs if offered a similar role elsewhere



of employees are satisfied with their jobs

Diversity matters

Managing a diverse workforce is mandatory for leaders in a global business environment. Larger companies may have a head start on their smaller peers in this arena, as they often operate across a wider range of countries. As a result, they are more likely to expressly task someone, such as a Chief Diversity Officer, with cultivating and managing individuals from a broad range of nationalities, genders, abilities, and perspectives.

Our surveys show that many SMBs are still playing diversity catch-up. While companies of all sizes could use improvement, the smaller ones are even further behind. They are less likely than larger companies to say diversity has increased among the general workforce (51%) or mid-level leadership (38%), although they are more likely than the largest companies to say it has increased for the board and senior leadership.

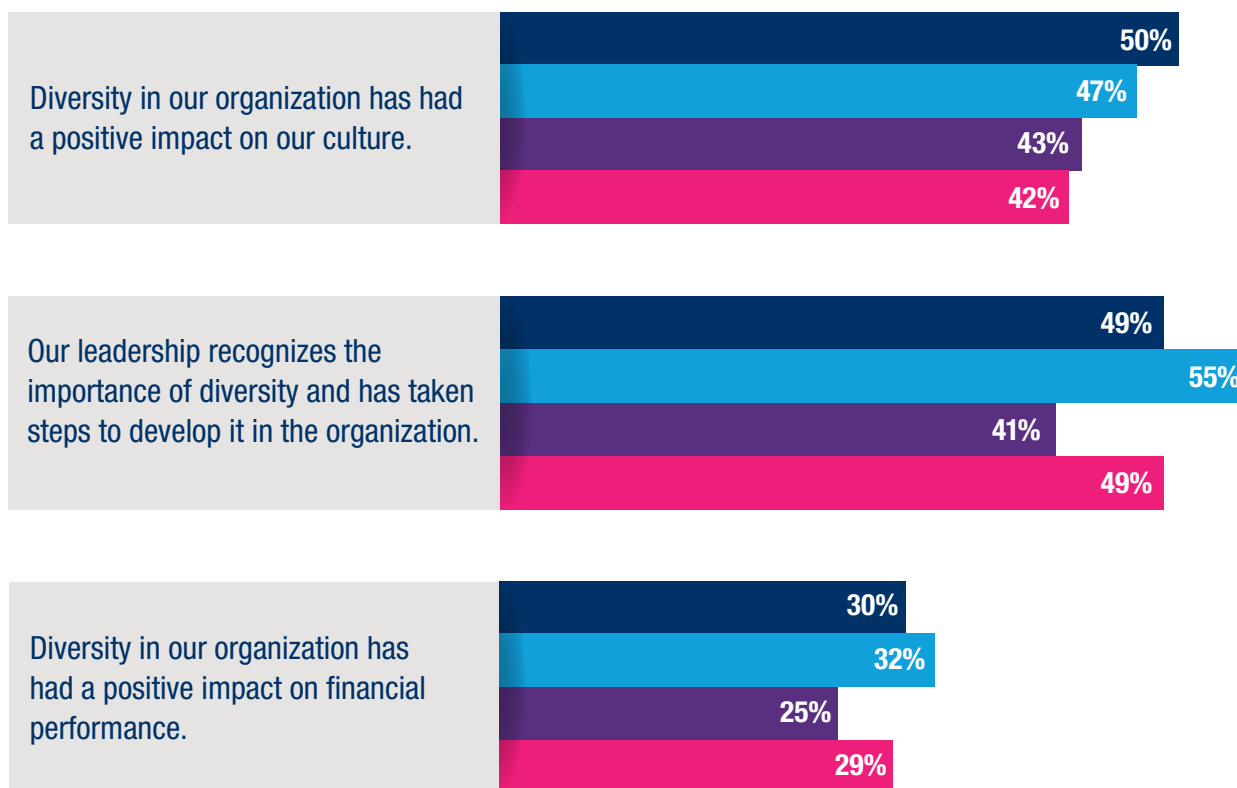
SMB executives are less likely than the overall sample to say diversity has had a positive impact on culture, and about as likely to say that positive impact has spread to financial performance. Similar to other company sizes, less than half of SMBs say leadership recognizes the importance of diversity.

Digital Winners are more focused on the benefits of diversity in terms of both culture and financial performance—a critical step in building a diverse, inclusive culture. Making the case for diversity at the board level will help companies create more effective programs to build it, which will in turn drive greater benefits.

SMBs see positive impact of diversity, but not financial payoff

To what extent do you agree with the following statements about diversity at your organization? “Agree” and “Strongly agree” responses

■ All executives
 ■ All employees
 ■ SMB executives
 ■ SMB employees



Conclusion

The digital economy presents SMBs with more challenges than ever before, including competition around the world and the threat of new, technology-powered rivals upending entire industries. But this environment also creates opportunities.

Change is never easy—but it may be easier for SMBs than for their larger peers. Small and midsize companies should embrace this reality. Overhauling leadership for the digital economy—whether by updating the decision-making process to be more data-driven and distributed across the organization, upskilling executives and employees, changing organizational structures, or setting and communicating a company-wide digital strategy—ought to be easier for smaller companies.

On the other hand, SMBs face their own set of challenges. It may be harder for them to build a diverse, global workforce or recruit employees. Extra effort from leadership in these areas will further accelerate digital transformation and help small and midsize companies get ahead of the competition and attain sustained growth.

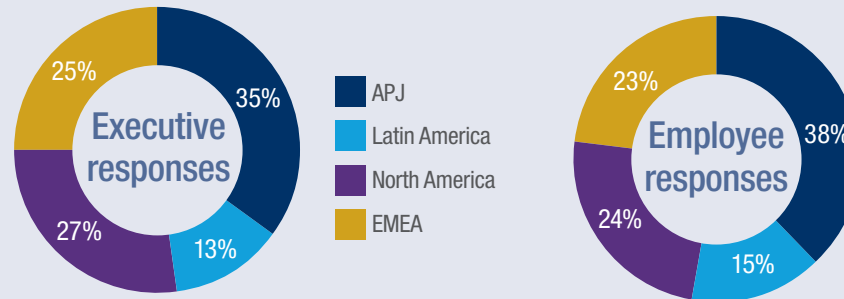
SMBs: A snapshot

For the purposes of this study, we define SMBs as companies with \$250 million to \$500 million in revenue. Roughly one-quarter of respondents to our global surveys of more than 4,100 senior executives and non-manager employees are from small and medium-sized enterprises; our sample includes 515 executive respondents and 512 employee respondents from companies of this size.

Our sample of SMB executives and employees is distributed around the world and across industries. A small majority of SMBs are seeing modest financial gains (54% say profitability has increased over the past three years; 60% have seen slight increases in revenue growth).

SMB respondents by location

In what country is your organization headquartered?



SMB respondents by industry

What is your organization's industry segment?

