What next for Tech SA? Aligning leadership, culture and strategy

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Introduction

Growth remained flat for Tech SA towards the end of 2016. As a subsidiary of a global information technology (IT) services firm, Tech SA was under pressure to meet its growth plan. With this in mind, a new culture and values framework to be more innovative, collaborative and responsive had been adopted. This was to match the demands of the volatile, uncertain, complex and ambiguous (VUCA) world the company finds itself in. While the organisation had a tradition of serving long-standing clients and contracts to high standards, it was not used to working with radical change and disruptive innovation. To achieve this, significant changes in leadership behaviours were required. The organisation had recognised the need for these changes and a leadership development programme was devised to enable 200 of its top leaders to make the required cultural and behavioural shifts to lead in these times.

Although the leadership programme was well into its second year, the targets of the growth plan had not been achieved and the leadership behaviours had not yet been instilled across the business. If the growth plan was not achieved, John would need to consider cost-cutting and retrenching. This was the last thing John Moore wanted to do as he had worked alongside his colleagues for 12 years. What else could John do and say to the leaders to make the required changes urgently needed as a matter of survival? What would it take to deliver to existing clients and explore new products and markets?

The sun shone through the window of John's third-floor office in town as he prepared to address his leadership team. The topic for the day on the leadership programme was digital transformation, a topic that John was particularly fond of. As Managing Director (MD) he had personally sponsored the leadership programme, signalling the importance of leadership development across Tech SA. He had convinced himself that the urgency was felt by all leaders, but they found themselves only 10% along the way. The company's transformation was feeling more like a marathon than a sprint, which is what was needed. Much had been done to effect change across the business culture and much had been invested in the development of leaders to drive the change. Yet, the gap remained between the plan and the results. Failure was certain unless they could pick up the pace and speedily transition to the new way of working.

Growth plan for Tech SA

John had been MD for four years and the pressure was mounting to grow the business to deliver to its global shareholders. The global majority owner company of Tech SA had been through a turnaround strategy itself over the previous decade and they were impatient to see similar results from their subsidiaries, including Tech SA. Tech SA's growth, had been

flat since a revenue spike of 2010 that followed a 100% acquisition of another firm. The pending loss of two large outsourcing contracts in 2017 put pressure on the firm to find growth elsewhere. John and his executive team had shared the challenges facing their business with the leadership team. This had resulted in the Executive Committee (Exco) crafting the values and growth path for the company to move into 2017 and beyond. Together they had devised the growth plan comprising three elements, namely, a focus on consolidating sales initiatives, developing new initiatives and potentially disrupting some markets. The company would "exploit" their current markets and products and "explore" into new markets and products. The business units would be consolidated along industry and customer clusters moving away from a product-based focus. Leaders needed to execute on this plan to hold the current path while building the new.

The imperative to change

In the 12 years of being with the firm, John embraced being an authentic leader, believing in hard work, loyalty and always striving to do better. His style mirrored the culture of the business. His humble style of leadership meant he led by example steadily working to grow the business. He did empathise with many of the managers who had worked for the company for over a decade and been a part of many structural changes. He had personally overseen a number of these acquisitions by the company as it grew over the years and he witnessed culture and leadership clash during the assimilation.

He frequently called on the head of culture and talent transformation, Susan Dale, who worked alongside him all these years. She proffered personal counsel and insights into how to change culture and leadership ways. She had been a core driver of the design of a new competency framework for managers to adopt a new style of leadership and of the new cultural pillars for Tech SA. There remained four key drivers, as Susan articulated, for changing the leadership ways and the organisational culture.

1. The need to bring in new profitable business as two large contracts were drawing to a close for Tech SA in 2017. There was a clear focus to drive sales into new markets, to deepen penetration in existing markets, to disrupt with new products from the global firm and gain new clients.

2. Think globally, act locally. While the global firm did bring in a novel and innovative products the global firm also arguably hindered the ability of the South African firm to adapt to local customers' needs. The global firm requirements to comply with global governance, processes and rules constrained local agility.

3. Local political, social and economic pressures. This subsidiary of Tech SA operating in South Africa was facing poor economic growth of less than 1% Gross Domestic Product per annum. The political turmoil was rising and ethics were being brought into question with allegations of corruption and collusion between government and providers. This spilled over into allegations of certain IT providers of being corrupt with government and state-owned enterprises. Even the volatile currency and exchange rate challenged the business daily. There were also heightened demands on firms through legislative frameworks such as B-BBEE (broad-based black economic empowerment) legislation (Act 53 of 2003) to support transformation, particularly of ownership and management to be more demographically representative. Tech SA was under pressure to appoint more black South Africans in a majority of leadership roles and to revisit the ownership of the subsidiary. This uncertain context placed challenges on Tech SA in its leadership, structure, ownership, pricing, markets and labour market and rising costs.

4. The fourth industrial revolution, as defined by the World Economic Forum and the author Klaus Schwab, demands constant innovation with technological advances and customer expectations changing. These, in turn, impact the way of working and

business models to respond rapidly to changes in the market. The old ways of organising companies would not enable competitiveness in these times. The old ways of leading will not suffice.

The top 200 leaders of the business had been engaged in the leadership programme for the duration of 2016, partly to grow their capacity to lead into the fourth industrial revolution to support the growth plan. Susan wonders how it is that these leaders had attended the leadership programme and were supportive of it and yet there had been little evidence of change and growth in the business locally.

Emerging market local context of the business adds challenges

Operating in an emerging market brings with it unique socio-political challenges and none more so than in South Africa. The economy had come under significant pressure, with a threatened downgrade by rating agencies at the end of 2016 and the International Monetary Fund had cut its forecast for economic growth in South Africa to 0.1% from 0.6% (Gumede, 2016). Unemployment had also risen to over 25.4% of a population of 54.9 million (South Africa Economy data, 2016). The rising inequality had sparked labour unrest and fuelled student protests at universities for free education. South Africa's Gini coefficient had been rated the worst in the world (Bhorat, 2016).

This turbulence continued in the political context. The African National Congress ruling political party, then led by President Jacob Zuma, lost the lead in some towns in the local elections of August 2016. Earlier that year, the highest court, the Constitutional Court, had also ordered the president to repay the state R7.8m for improvements to his private home at Nkandla made at taxpayers' expense (Mail & Guardian, November 2016). This had all taken place amidst a context of increasing bribery and corruption, accusations and scandals throughout the government, including state-owned enterprises of Eskom and Transnet.

Somewhat surprisingly, despite these challenging market conditions and macroeconomic environment, the IT sector was growing in South Africa. The opportunity for growth was there; the challenge was how to gear Tech SA up for new market possibilities before more adept competitors took advantage.

Growth opportunity in the local market in tough times

It was forecast that the South African IT service industry would increase by 29.6% by 2020 (from 2015) and there was no reason Tech SA could not match these growth figures (Marketline Industry Profile, 2016).

Being a global firm Tech SA could tap into more global innovations and offerings from, their holding company although the Exco was sensitive to having a local focus in operations and client interface. Business Monitor International (BMI) has forecast that the strongest driver of growth in the IT market would be government spending via service expansion and modernisation efforts (BMI Research, 2016) but John was worried. Tech SA's government contracts were ending, placing pressure on acquiring new clients and under the B-BBEE legislation government was driven to procure services from solely locally owned firms, which Tech SA was not.

Additionally, the IT services market was evolving from offering services that improved productivity and efficiency, such as outsourcing, to provide value-added services such as analytics (Exhibit 1 – IT Sector in South Africa, opportunities and challenges). Cloud computing systems were expected to achieve dynamic growth over the next few years as buyers expand the use of data centres and advanced analytics to manage the vast amounts of data being produced in the connected world. Tech SA was well-positioned to offer these services through their global advances in this field.

Application services were the largest segment of the IT services industry in South Africa, accounting for 45.3% of the industry's total value in 2016. Tech SA had purchased a smaller app developing firm but John was unclear how much these services were integrated across all client offerings.

Operating in the fourth industrial revolution

From the start of the leadership programme, the Tech SA leaders had been exposed to the trends and changes facing their customers and their business as described by Klaus Schwab: (b)usinesses face the effects of the fourth industrial revolution on four fronts – on customer expectations, product enhancement, collaborative innovation and organisational forms. The bottom line, however, is the same: business leaders and senior executives needed to understand their changing environment, challenge the assumptions of their operating teams and relentlessly and continuously innovate (Schwab, 2015).

The Tech SA Exco understood that the market was shifting and that new technologies such as cloud, mobility and big data, together with increasing customer expectations, were fuelling the need for companies to create a digitised environment. Companies had to innovate with digital transformation to significantly reduce delivery times for new products and services. Services were also likely to become increasingly automated, particularly with the adoption of cloud computing services (Marketline Industry Profile, 2016). Tech SA was well placed to offer these services offered globally in the firm and yet many of its leaders locally had not yet embraced these new solutions and even treated the newer units with disdain as their style of working was so different from the larger group.

The current organisational culture and structure were not aligned to meet the growth plan. Most managers commented that they were more alert to the external environment and changes in the customers' customer demands and client needs. Yet, they were not able to easily translatable these into their existing structures and culture across the various divisions. If the leaders were more open to ongoing learning and collaboration and innovation in designing and offering new services and new solutions to new markets and new clients, they could grow their portfolio and be positioned for sustainable future growth. Tech SA Exco saw that there was an opportunity to grow in the market and they need leadership to drive this and it could not be based on current client and current products.

> A world of customer experiences, data-based services, and asset performance through analytics, meanwhile, requires new forms of collaboration, particularly given the speed at which innovation and disruption are taking place. And the emergence of global platforms and other new business models, finally, means that talent, culture, and organizational forms will have to be rethought (Schwab, 2015).

John was curious, which business units had a most innovative culture and leadership, as the cultures were certainly varied across the Tech SA.

Many cultures within one – pockets of innovation

The acquisition trail of smaller businesses by Tech SA brought in different cultures, leadership styles, clients and staff profiles. This was visible to John as he walked through the sunny dining area in the atrium of the building. He waved at Paul Stitch walking past, barefooted as usual.

Paul's company had been acquired by the group two years previously and managers of his unit were battling to acclimatise to a larger global corporate culture. They were a start-up team and had operated in an agile and responsive way, as inception implementing exciting new innovations for mobile applications. Paul was frustrated too, as he cited examples of how they had lost key talent in the recruitment process. They needed global sign off even

on internal appointments, which took too long and the top talent was snapped up by competing firms.

Paul had commented at Exco that the story of Tech SA South Africa had been one of a continuously evolving culture and that they needed one coherent purpose and leadership framework. Susan agreed there was a need for unity amongst leaders and to find a way to infuse a shared culture and competency across the firm.

Current dominant organisational culture and values of being a stable and dependable support

Tech SA prided themselves most of all in meeting their service level agreements (SLAs) to a consistent score of not less than 98%. John was proud of his managers consistently responding to client requests and solving problems, being willing to go the extra mile.

The current culture and values of the business were of integrity, professionalism, of wanting to help, of caring, of being humble, of being pragmatic. Tech SA had a high-performance culture in which continuous improvement was valued but in practise the company was slow to change, innovate, take risks and do things differently. This culture had served the company well in the past, but it did not have a culture of agility, flexibility, speed and innovation, which they needed to meet their growth plan.

As an IT company, Tech SA could play a central role in supporting changes in their customers to meet their future market needs. To do this the company had to shift from only servicing existing large, fixed, long term contracts to be an even more innovative adaptive organisation. The one leader, Anne Mitchell, discussed her challenges with this approach with John just the week before using the example of a leading health care company. She was the client lead for Tech SA providing hardware and software products to this client who was pressurising her to cut costs, citing their own rising operational costs in the South African market. Given this context, she could not see how this client would even be open to discussing innovative and digital solutions, which she knew Tech SA had access to, which would provide better solutions to patient and doctor management. How could Tech SA manage to be both of these – serving current product sales needs and delivering long term innovative solutions?

The leadership development programme

Susan had explained to the leadership team "If each partner can now bring their magic, the success of the future will be in these partnerships". The dilemma, she believed, was in the "letting go and humility that comes with the change. In a digital world we cannot have all the answers. Risk aversion does not bode well in the VUCA world". She agreed with the academic Stafford Beer who wrote that "(w)e live in a time of unprecedented change. Global competition and rapid changes in technology and markets force organisations to be adaptive and capable of transformation" (Beer, 2008). "The fourth industrial revolution, finally, will change not only what we do but also who we are. It will affect our identity and all the issues associated with it" (Schwab, 2015).

The leadership programme aimed to build the top 200 of Tech SA's leaders to be the champions of the change that Tech SA needed. Susan argued that "If we want to achieve our goals, we need to change the organisation and the individuals in it".

The leadership programme ran over a year and comprised multiple channels of learning. The programme included a series of eight face-to-face classroom-based masterclasses, as well as online learning, action learning and feedback. All these parts revolved around a revised leadership competency framework, values and cultural behavioural shifts and each session focussed on a competency of which the leaders were required to apply and submit

their findings. The programme included 180-degree assessments to track progress, learning and applications.

The intention in the programme design was to shift leaders from understanding to action; leaders had to be able to do things differently in a new world and to be able to sustain these new ways of working. John had often commented that it was not just about "fancy words or wordsmithing" but also about acting; the time had come to do things differently. To provoke new thinking, he had once asked the leaders whether they should be selling drones and whether the content of what the company sold needed to change dramatically. Who would they be as a company in the future, he often pondered and how had he wanted his leaders to act to create this future?

Participating managers' comments on building collaboration, innovation and being less risk-averse

There were examples of how managers were acting on these new competencies. One manager shared one example of acting in a new way of collaboration with a client as he had initiated an unusual day-long engagement bringing in a cross-functional team from Tech SA. By using this new way of collaborating he was able to write up and offer multiple services to what would otherwise have been a departing client. "Ending long term contracts does not mean ending client services. We just listened and responded to the client in a different way" he said.

Still, many managers had questions on how they could balance the old and the new approaches. "What does this mean to my everyday life"? Another manager asked. "We still need to sell the bread and butter products such as hardware, we can still make good profit from this and so how is this being innovative"? He added "we are not being asked by our clients to create the latest, newest services. Our retail clients don't want the "store of the future" with all the latest techno-gadgets. In South Africa, they want something that is cheap, so they can keep margins of around 2%. How do we digitise in this context"? The manager was grappling with how to improve current client service and responsiveness, while also making a shift to disruptive services and new structures.

A manager from one of the software programmers' teams also commented that "I pride myself on meeting my SLAs. Innovation is now asking me to experiment, to fail, to even "budget for failure", to learn fast. Does this mean I must develop code to patch onto systems? What about doing things right? It feels like something is being ripped out of my heart to ask me to do this".

John realised that many of the leaders were still grappling with the new plan and the message to his leaders now needed to be different. It was not a case of one step at a time. It was now a race because of the change needed to happen quickly. Tech SA needed to act fast. Then, it needed to both explore and exploit current markets and products. Leaders would be key to turn around the transition and culture and move to balance both demands.

Stepping into the elevator to go down to join the leadership team in the conference room, John's mind was racing. He would be sharing his message with them both in person and via live video broadcast to all the offices. How was he to convince them to effect these changes more quickly across the business so as to embed a new way of working? Despite the change initiatives so far, growth remained flat. As MD, John strongly believed he had to share an unambiguous message of what was being asked of the leadership team. John had choices to make should the leaders not change their behaviour to change the culture and direction of Tech SA.

Keywords:
Management/executive education,
Organisational behaviour,
Management theory,
Strategic management/ planning,
Leadership,
Organisational change,
Leadership development,
Organisational culture,
Culture change,
Strategy,
Organisational design,
Organisational structure,
Uncertainty

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Exhibit 1. The information technology sector in South Africa, opportunities and challenges

Adapted by the author from Marketline Industry Profile and BMI research (2016).

Sources:

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Market value – the South African IT services industry grew by 3% in 2015 to reach a value of $44.3m. In 2020, the South African IT services industry is forecast to have a value of $57.4m, an increase of 29.6% from 2015.

The South African IT services market has experienced fluctuating levels of growth in recent years. The market is expected to accelerate to strong growth over the forecast period to 2020. The South African IT services industry had total revenues of $0.6bn in 2015, representing a compound annual growth rate (CAGR) of 3.1% between 2011 and 2015.

Market rivalry – the IT services market is evolving from offering services that improve productivity and efficiency such as outsourcing, to providing value-added services such as analytics consulting. This increases rivalry as players seek to capture market share in higher-margin sectors.

Cloud computing systems are expected to achieve dynamic growth over the next few years as buyers expand the use of data centres and advanced analytics to manage the vast amounts of data being produced in the connected world. The positive impact of this transition on the IT services market could be balanced by a decline in outsourcing and processing services as many more tasks become automated through the use of artificial intelligence-based algorithms.

New entrants – Entry on a small scale is achievable in the IT consultancy market; smaller players have experienced increased growth as both government and commercial institutions increasingly turn to third parties to provide specialised IT support. Similarly, buyers seek to cut costs wherever possible and data processing and other business processes have increasingly been outsourced to specialists, allowing clients to focus on core activities.

Large companies in this industry have significant economies of scale in processing and can offer more services; smaller companies can compete by specialising in particular verticals and offering customised services. Newly developing niche markets will offer opportunities for smaller players in areas such as green IT and the "internet of things". Equally, industry specialists operating in key markets such as health care and finance have significant opportunities. However, established companies, relying on an existing business image, may be unwilling to trust smaller, less established companies. This offers larger industry players an advantage.

Rivalry – The industry is fragmented despite the presence of large, international incumbents. Large players attempt to differentiate themselves through a number of initiatives in an effort to boost their competitive edge. Companies such as International Business Machines Corporation offer a variety of services and products, including hardware and software, which serves to ease rivalry as they are not solely reliant on the revenues generated from this industry. In addition, developments in a social network, mobile, analytic and cloud technologies have begun to allow players to offer more value-added services. This has increased rivalry in terms of intellectual property and the need for perpetual innovation.

The globalised nature of the industry increases rivalry with regard to cost reduction. India has led the way in expanding export services at reduced costs. This has historically been linked to labour costs but may develop into data storage costs as increasing amounts of data are being created and restrictions on data flow mean that data centres will proliferate.

Opportunities and challenges in the information technology sector of South Africa

One key opportunity in the burgeoning South African market of cloud computing is the boom in investment in data centres and related infrastructure. These provide the foundations for growth in cloud services' adoption over the medium term. BMI believes there is also scope for South Africa to emerge as an important cloud computing services hub in Sub-Saharan Africa because of its relative strength in supporting infrastructure. South Africa offers a range of networks, international bandwidth and data centres, as well as advantages over several other major markets in the region because of the country's more predictable business environment.

Despite the uncertain global economic situation, a number of sectors, including telecoms and financial services, are likely to provide opportunities. Regulatory compliance will continue to necessitate spending by banks, which are moving to integrate their IT systems and looking to rapidly enhance their ability to launch new products and services. There is also more awareness about the need to ensure that good recovery plans and security systems are in place. Priorities include the ability to keep systems running, provide a good response time, ensure good recovery plans and security and compliance with regulations, all while keeping costs down. Municipal and local authorities are also starting to implement cloud services.

The growth of the domestic managed services market and the growing popularity of South Africa as an outsourcing destination is attracting more vendor investments.

South African information technology services market

Strengths:

- One of the largest IT markets in Africa by value.
- Regional hub and a supply base for neighbouring countries.
- Free trade policies and tax incentives.
- Presence of large global companies across different market segments.
- Lowest incidence of pirated software in Sub-Saharan Africa by some distance.

Weaknesses:

- Domestic market is highly price-sensitive and dependent on government spending.
- Poor IT infrastructure outside major urban areas.
- Shortage of skilled IT workforce.
- Continued uncertainty over the government's information communications telecommunications policy.

About the authors

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