

McKinsey Digital

Five moves to make during a digital transformation

Surveyed executives confirm that digital transformations rarely achieve success. But in those that do lie the structural elements that may help organizations overcome the odds.



Despite the abundance of digital and analytics transformations underway across the business landscape, few companies are achieving the results envisioned. Our latest McKinsey Global Survey on the topic confirms that the rate of success is alarmingly low.¹ About eight in ten respondents say their organizations have begun digital transformations in recent years, but just 14 percent say their efforts have made and sustained performance improvements.² What's more, only 3 percent report complete success at sustaining their change.

That companies find difficulty turning in successful digital transformations is not surprising, since we know from previous research that digital transformations are harder than more traditional ones to get right.³ But a look at the structure of digital and analytics transformations points to five key moves at particular stages of a transformation that set successful change efforts apart. These actions suggest ways that other organizations can plan and execute digital transformations successfully.

For starters, respondents who report the greatest levels of success in pursuing digital transformations say their organizations ruthlessly focus on a handful of digital themes tied to performance outcomes. In defining their transformations' scope, these successful organizations boldly establish enterprise-wide efforts and build new businesses. They also create an adaptive design that allows the transformation strategy and resource allocation to adjust over time. In addition, they adopt agile execution practices and mind-sets by encouraging risk taking and collaboration across parts of the organization. Moreover, in successful efforts, leadership and accountability are crystal clear for each portion of the transformation.

Ruthlessly focus on a clear set of objectives

When considering a response to digital disruptions, organizations face many critical choices. Should they transform their existing business model or build a new one? Should they drive down costs or focus

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¹ The online survey was in the field from September 11 to September 21, 2018, and garnered responses from 1,733 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

² We define a successful transformation as one that, according to respondents, has been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

³ "Unlocking success in digital transformations," October 2018, McKinsey.com.

on customer engagement? Which areas of the business will require more investment in digital initiatives, and which will need to defund their own initiatives to free up resources for the ones that perform well or reflect higher-priority objectives? Getting leaders to agree upon the best way forward can be challenging, but the survey results suggest a need for consensus.

With successful digital transformations, respondents say their organizations keep efforts focused on a few digital themes—that is, the high-level objectives for the transformation, such as driving innovation, improving productivity, or reshaping

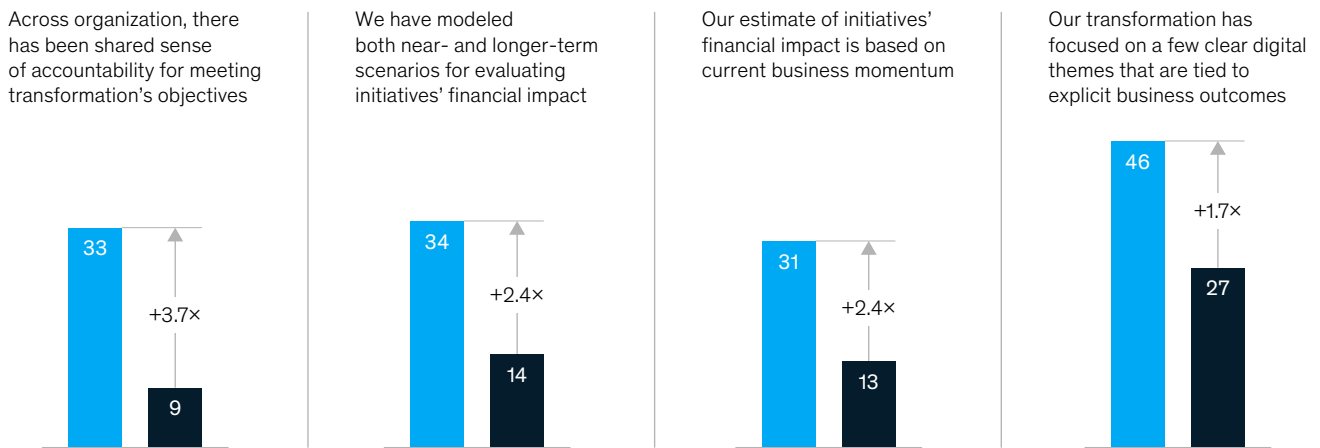
an end-to-end customer journey—that are tied to business outcomes, rather than pursuing many different agendas (Exhibit 1). At successful organizations, accountability for those objectives also spans the organization. These respondents are 3.7 times more likely than others to report a shared sense of accountability for meeting their transformations' objectives. They also say their organizations have been clear about the financial effects of their initiatives; for example, they estimate impact based on the company's current business momentum and models of near- and long-term scenarios.

Exhibit 1

Successful digital and analytics transformations are focused and well defined.

% of respondents who strongly agree with given statement about their organizations' transformations¹

■ Respondents reporting successful transformations² ■ All other respondents



¹ Respondents who answered "agree," "disagree," "strongly disagree," and "don't know/not applicable" are not shown. For respondents reporting successful transformations, n = 225; for all other respondents, n = 1,136.

² Respondents who said that their organizations have been very or completely successful at both improving performance and equipping organization to sustain improvements over time.

Be bold when setting the scope

We know from previous research that digital strategies should be bold in magnitude and scope,⁴ and the survey results show that this also holds true for digital transformations. The successful digital and analytics transformations are about 1.5 times more likely than others to be enterprise-wide in scale (Exhibit 2). This result aligns with earlier research, which found that companies making digital moves often use new digital technologies at scale to capture the full benefits from their

technology investments.⁵ Respondents at successful organizations are also 1.4 times more likely than others to report the creation of new digital businesses during their transformations.

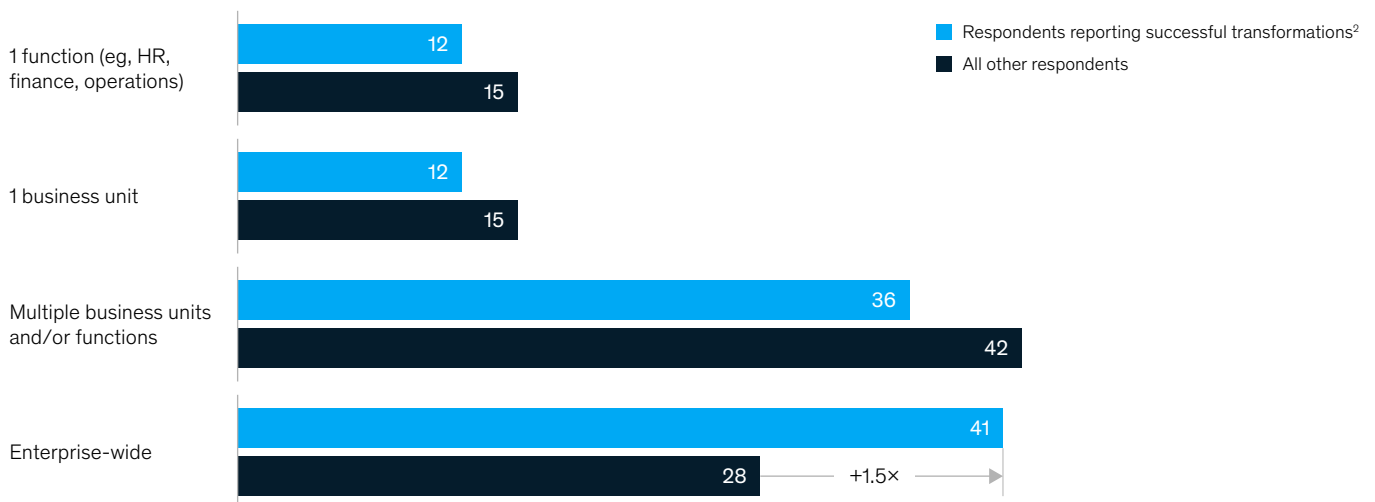
Create an adaptive design

The fast pace at which digital drives change explains why so many companies are launching digital transformations and why the transformations themselves must be flexible. Defining a multiyear

Exhibit 2

A bigger, bolder scope is much more likely among successful transformations.

Scope of organizations' transformations,¹ % of respondents



Creation of new digital business,³ % of respondents



¹ Respondents who answered "don't know" are not shown. For respondents reporting successful transformations, n = 225; for all other respondents, n = 1,136.

² Respondents who said that their organizations have been very or completely successful at both improving performance and equipping organization to sustain improvements over time.

³ Transformations involving creation of new digital businesses. Respondents who answered "no" or "don't know" are not shown. For respondents reporting successful transformations, n = 225; for all other respondents, n = 1,136.

⁴ Jacques Bughin, Tanguy Catlin, Martin Hirt, and Paul Willmott, "Why digital strategies fail," *McKinsey Quarterly*, January 2018, McKinsey.com; Jacques Bughin, Laura LaBerge, and Anette Mellbye, "The case for digital reinvention," *McKinsey Quarterly*, February 2017, McKinsey.com.

⁵ Companies making digital moves are those that are digital natives, industry incumbents competing in new and digital ways, or incumbents moving into new sectors. For more, see "How digital reinventors are pulling away from the pack," October 2017, McKinsey.com.

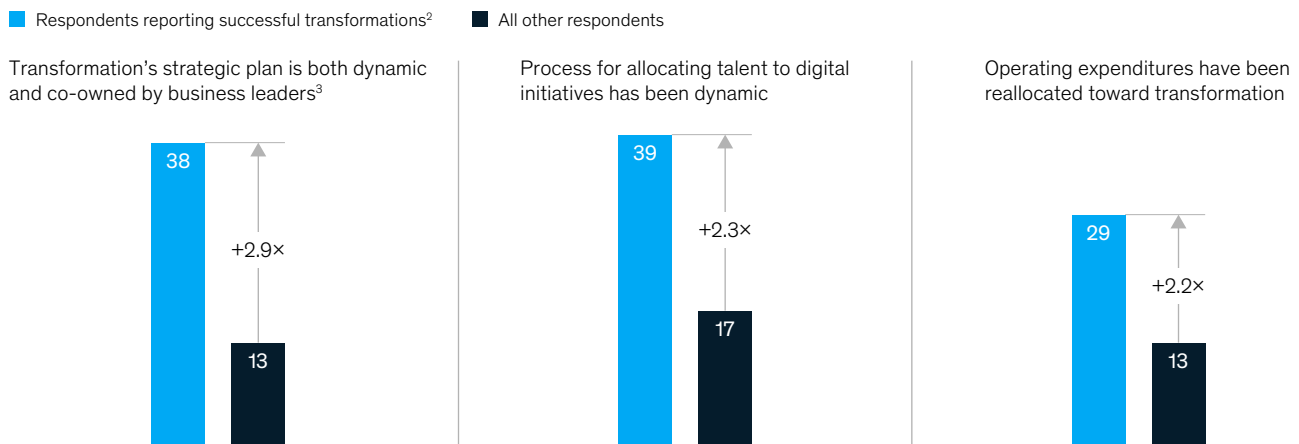
transformation's investment requirements and performance targets up front—and not revisiting them as the transformation progresses—has perhaps never been a sound approach. But digital transformations require monthly, if not weekly, adjustments.⁶ We see this adaptability ingrained in the design of successful transformations: respondents reporting success are almost three times more likely than others to say their efforts involve at least monthly adjustments to their strategic plans, based on business leaders' input on the state of the transformation (Exhibit 3).

Along with the need for adaptable transformation targets, flexible talent allocation is a differentiator in a transformation's success. Respondents at successful organizations are more than twice as likely as others to strongly agree that their allocation of talent to digital initiatives has been dynamic during their transformations. Finally, a larger share of respondents reporting success say their organizations have reallocated their operating expenditures to fund the transformation. Earmarking resources for initiatives that span organizational silos can help ensure that a trans-

Exhibit 3

Adaptive design and dedicated resources support success in transformations.

% of respondents who strongly agree with given statement about their organizations' transformations¹



¹ Respondents who answered "agree," "disagree," "strongly disagree," and "don't know/not applicable" are not shown. For respondents reporting successful transformations, n = 225; for all other respondents, n = 1,136.

² Respondents who said that their organizations have been very or completely successful at both improving performance and equipping organization to sustain improvements over time.

³ That is, strategic plan is adjusted at least monthly and business leaders give their input and progress updates on their parts of transformation.

⁶ "A winning operating model for digital strategy," January 2019, McKinsey.com.

formation is properly funded and that initiatives aren't partially funded by one part of the organization only to be deprioritized by another.

Adopt agile execution approaches and mind-sets

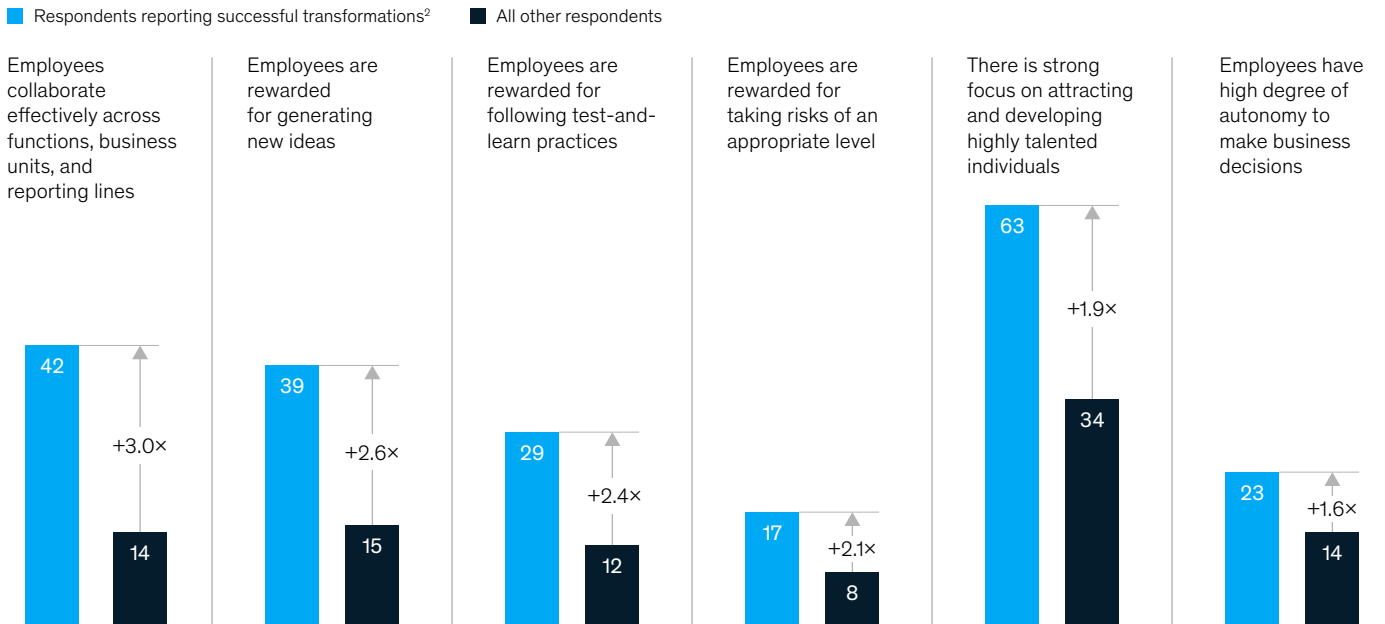
Just as the transformation's design must be adaptable, so must the execution of its initiatives. Successful digital and analytics transformations are likelier than others to employ more agile ways of working, such as encouraging risk taking, innovation, and collaboration across parts of the business,

during a transformation.⁷ Agility's importance to transformation success is clear when we look at the agile characteristics of companies' organizational culture. Respondents at successful organizations are more than twice as likely as their peers elsewhere to strongly agree that employees are rewarded for taking risks of an appropriate level and 2.6 times likelier to say their organizations reward employees for generating new ideas (Exhibit 4). Additionally, these respondents are three times likelier to say employees collaborate effectively across business units, functions, and reporting lines. These findings align with previous research on successful

Exhibit 4

Successful organizations are more likely to employ agile ways of working during their transformations.

% of respondents who strongly agree with given statement about their organizations' transformations¹



¹ Respondents who answered "agree," "disagree," "strongly disagree," and "don't know/not applicable" are not shown. For respondents reporting successful transformations, n = 225; for all other respondents, n = 1,136.

² Respondents who said that their organizations have been very or completely successful at both improving performance and equipping organization to sustain improvements over time.

⁷ For more on organizational agility, see Wouter Aghina, Aaron De Smet, Gerald Lackey, Michael Lurie, and Monica Murarka, "The five trademarks of agile organizations," January 2018, McKinsey.com; and Wouter Aghina, Aaron De Smet, and Kirsten Weerda, "Agility: It rhymes with stability," *McKinsey Quarterly*, December 2015, McKinsey.com.

Respondents reporting successful transformations are likelier than others to say their leaders—from the board and CEO down to the leaders of specific initiatives—engage materially in the efforts.

digital cultures,⁸ which found that being risk averse and too siloed often prevents incumbents from realizing business impact from their digital activities.

Of course, organizations can rely on employees to be innovative, take appropriate risks, and work collaboratively only if they have the right digital talent. Talent is another aspect in which successful digital and analytics transformations differ notably from the rest. A larger share of success-group respondents than their peers strongly agree that their organizations are focused on attracting and developing highly talented individuals. They are 1.8 times likelier than others to say their organizations have hired new employees with strong digital and analytics capabilities during their transformations. What's more, these respondents report that an average of 53 percent of employees have been trained in new digital and analytics capabilities since their transformations began—1.7 times greater than the share of employees reported at other organizations.

Make leadership and accountability crystal clear

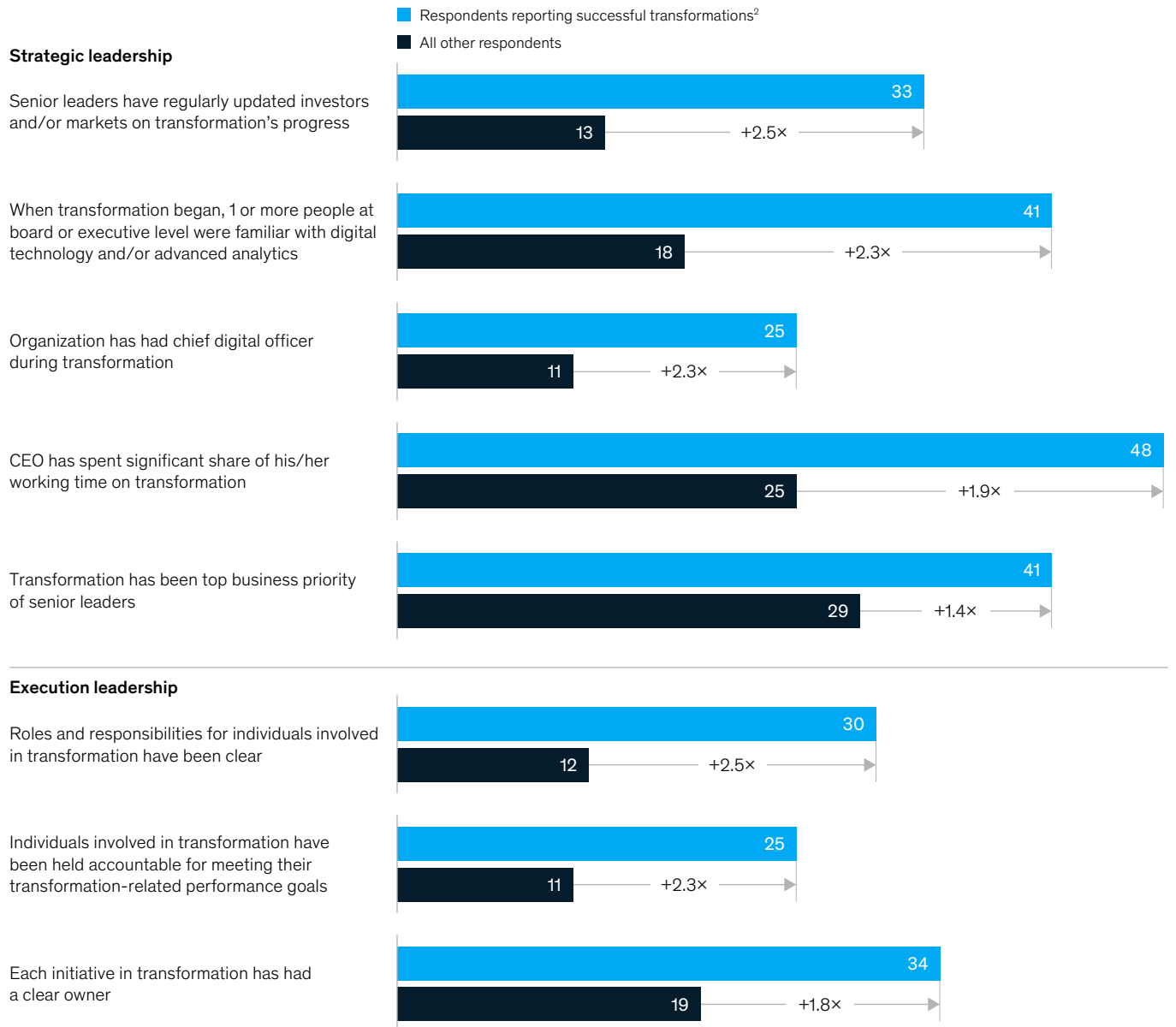
Who owns the digital and analytics transformation is often a hotly contested question, since the initiatives that organizations pursue will affect how company resources are prioritized and might even change the entire direction of the organization. A look at responses describing leadership roles shows significant differences between the success group and others in how certain roles lead the transformation's strategy and its execution. Respondents reporting successful transformations are likelier than others to say their leaders—from the board and CEO down to the leaders of specific initiatives—engage materially in the efforts (Exhibit 5). For example, leaders at these organizations are more likely to communicate their transformations' progress regularly to the markets. There also is greater clarity at successful organizations about who is responsible for which portion of the transformation, whether it's the ownership of a specific initiative or a particular stage in the process.

⁸ Julie Goran, Laura LaBerge, and Ramesh Srinivasan, "Culture for a digital age," *McKinsey Quarterly*, July 2017, McKinsey.com.

Exhibit 5

Successful organizations and others differ in how certain roles lead a transformation's strategy and execution.

% of respondents who strongly agree with given statement about their organizations' transformations¹



¹ Respondents who answered "agree," "disagree," "strongly disagree," and "don't know/not applicable" are not shown. For respondents reporting successful transformations, n = 225; for all other respondents, n = 1,136.

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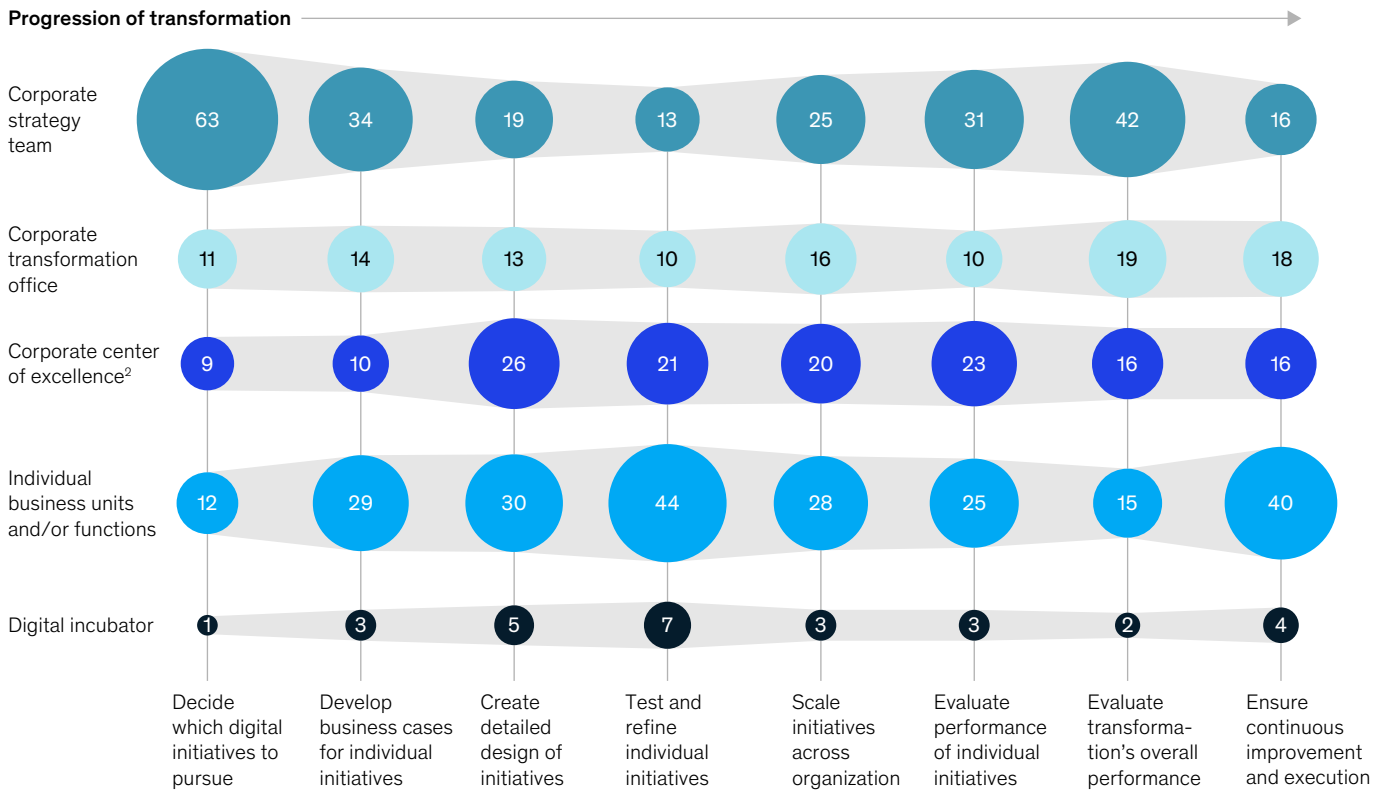
Clarity about ownership is critical, since responsibility often shifts among different groups as the digital transformation progresses, and the handoffs must be well-defined. The survey results show how successful companies manage ownership over time during their digital and analytics transformations (Exhibit 6). For setting strategy and measuring impact, the largest shares of respondents from successful organizations say responsibility lies with the corporate strategy

function, which has visibility across the entire business and broader ecosystem. By contrast, respondents at all other organizations are more likely than the success-group respondents to say individual business units or functions are responsible for these steps. Meanwhile, respondents from successful organizations say business units most often oversee the actual execution of initiatives—that is, building and refining them.

Exhibit 6

Ownership of a transformation shifts over time, and the results show how the most successful companies manage these changes.

Part of organization responsible for given transformation phase, % of respondents reporting successful transformations¹



¹ Respondents who said that their organizations have been very or completely successful at both improving performance and equipping organization to sustain improvements over time; n = 225; respondents who answered "don't know/not applicable" are not shown.

² Center of excellence for digital and/or analytics.

Looking ahead

While most respondents say their organizations have not fully sustained the improvements made during transformations, lessons can be learned from the approaches of the organizations that did succeed. The results from those efforts point to moves companies can make to keep their transformations on a path toward success:

- **Raise the bar on leadership alignment and commitment.** The broader scope of successful transformations further underscores the importance of having buy-in and alignment across the full organization to keep efforts coordinated and prioritized. Lack of leadership alignment around objectives often leads to many subscale and misaligned initiatives. One way to encourage commitment to a transformation's initiatives is to show leaders, using pilots and proof-of-concept exercises, that the strategy will work, followed by investment in a single cross-cutting initiative.⁹ Building these proof points can galvanize support for the change effort. The same is true of increasing leaders' digital fluency. These steps help make leaders comfortable with dedicating operating and capital expenditures at an enterprise level, which shows executive commitment and reduces the risk of wasting resources on incomplete initiatives.
- **Build in flexibility with clearly defined handoffs.** Not only are successful transformations more likely than others to span large parts of the organization, but the ownership of each transformation will evolve over time as it moves from ideation through execution. The results suggest that there must be a clear plan for how these shifts in accountability will occur. Handoffs and overlap are notorious friction points that are critical to manage and define. Leaders should gather the pertinent groups across the business and provide a clear plan for each transition, to avoid duplication, misalignment, and dropped balls.
- **Enforce survival of the fittest among digital initiatives.** Like ownership, funding for initiatives requires clarity: there should be clear criteria for reallocation of resources, whether operating or capital expenditures, based on performance. All digital initiatives should be expected to meet their targets to continue to receive funding. When initiatives fail to do so, organizations should defund them without delay to free up capital for new ones and quickly move on to the next approach. Seeking out M&A and partnership opportunities to quickly build out missing capabilities for new initiatives has been shown to be an important differentiator for success,¹⁰ and this seems likely to continue to hold true as the pace of digital transformations continues to increase.

The survey content and analysis were developed by **Jonathan Deakin**, a partner in McKinsey's London office; **Laura LaBerge**, a senior expert in the Stamford office; and **Barbara O'Beirne**, an associate partner in the Dublin office.

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⁹ Tanguy Catlin, Laura LaBerge, and Shannon Varney, "Digital strategy: The four fights you have to win," *McKinsey Quarterly*, October 2018, McKinsey.com.

¹⁰ "A winning operating model for digital strategy," January 2019, McKinsey.com.