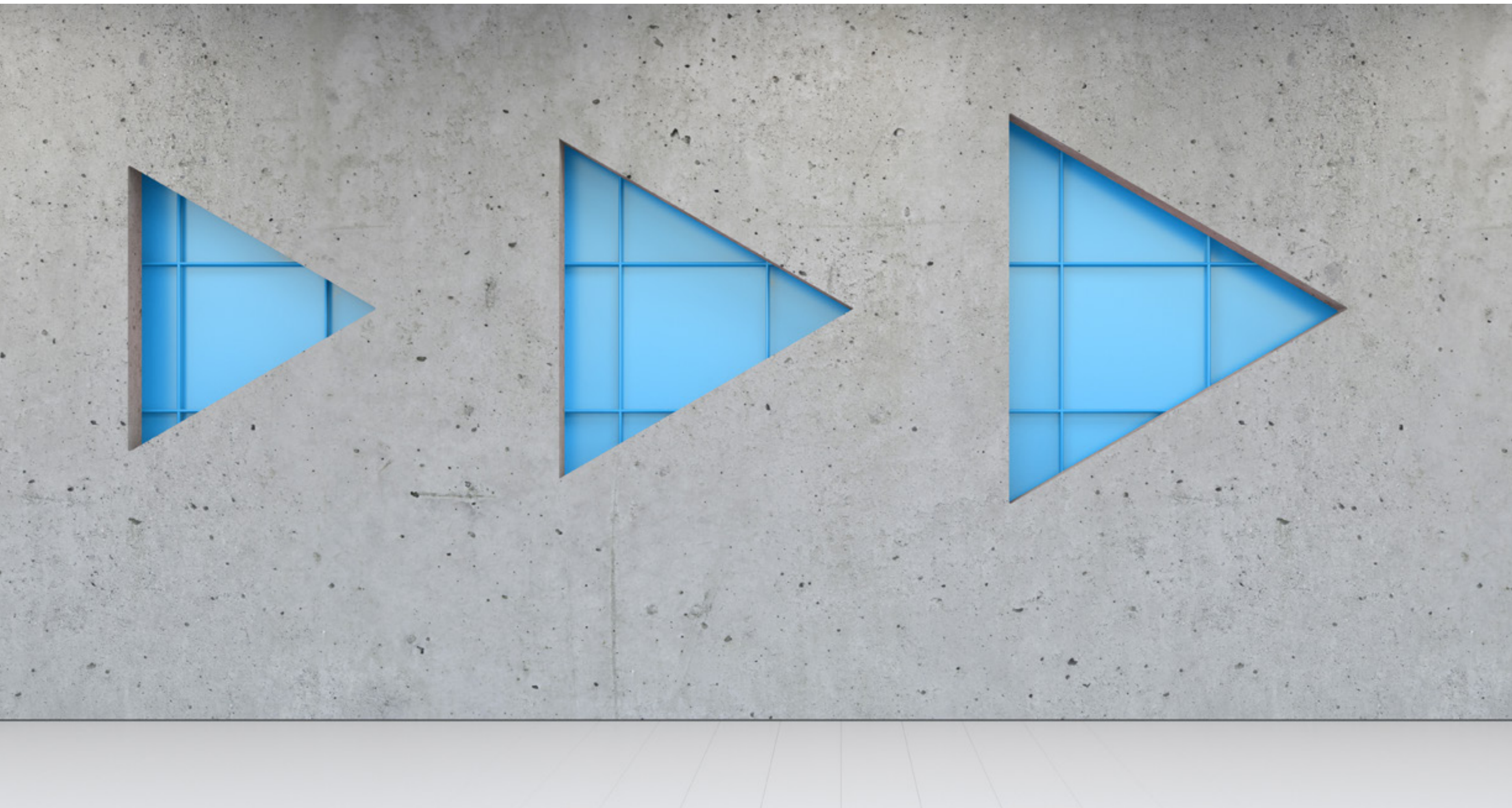
McKinsey & Company

Operations Practice

Breaching the great wall to scale

Introducing a new operating model is hard. Doing so quickly is even harder. Under pressure to accelerate their transformation, how can companies overcome the barriers that often hold them back?

This article was a collaborative effort by Sohil Kalra, Charles-Henri Marque, Alexis Renaud-Bezot, Ricardo Ribelles, and Rob Whiteman, representing views from McKinsey's Service Operations Practice.



December 2020

Amid unprecedented challenges, companies around the world have been evolving their operating models at unprecedented speed: shifting entire workforces to a remote model, for example, or reallocating resources and developing new digital capabilities in a matter of weeks in order to meet rapidly changing customer preferences.

For most organizations, crisis has provided new urgency to a process of change that was already underway. Even before 2020, many of the world's largest companies were investing heavily in new technologies and new ways of working. Financial services group JP Morgan Chase, for example, invests $11 billion every year in digital projects, and employs 50,000 technologists across its businesses. It became the first major bank to roll out AI-powered virtual assistants. Walmart added 1,700 technology-focused staff to its workforce in 2018 alone. The company is now estimated to have the world's third largest IT budget.

Despite significant effort and substantial investment, however, relatively few big companies have made the shift to new digitally-enabled ways of working across their operations. In this article, we explore why companies hit the "great wall to scale", look at some of the key pitfalls to avoid, and suggest a set of actions to maximize the chances of a successful operating-model transformation.

The next-generation operating model

When companies began to experiment with digital enhancements, automation, or artificial intelligence (AI), one truth quickly emerged: transforming involves more than just developing new technological solutions and plugging them into the existing environment. To reach their full potential, new technologies require processes to be redefined and simplified, data flows to be rewired, and the orchestration of work between humans and machines to be reengineered. Together, they imply a next-generation operating model—a new way of running the organization that combines digital technologies and operations capabilities in an integrated, well-sequenced way, thereby achieving dramatic improvements in revenue, customer experience, and cost.

We have identified three common characteristics shared by the minority of organizations that have managed to deploy a next-generation operating model at scale.

— *A truly end-to-end, value-stream orientation.* These leaders redesign their core operations to align with their most important value streams and customer journeys. A few critical success measures, including effectiveness, efficiency, and customer-related metrics, are systematically recorded and reviewed—both within functions and end-to-end as work moves from function to function.

— *A strategic aspiration.* The organization dedicates a significant part of its financial and human resources to the development and integration of new technologies, such as automation, advanced analytics, or AI, into its operations. These companies often establish centers of excellence for specific digital technologies, and their promotion is the responsibility of a dedicated C-level executive.

— *An enterprise-wide continuous-improvement engine.* These organizations have a managerial culture, expressed through carefully designed practices and systems, that enable continuous improvement at the front line. They also adopt agile approaches in critical processes, such as capital allocation.

Companies that successfully deploy a next-generation operating model at scale have created significant new value. One bank has seen its revenue increase by 25 percent and its operational costs decrease by 40 percent, while customer satisfaction improved by 15 percent. A telecommunications company has cut its time-to-market by a factor of ten, while employee satisfaction increased by 10 percent.

The great wall to scale

At-scale transformation to a next-generation operating model remains rare, however. A survey we conducted of more than 1,000 companies shows that while most have made some progress in modernizing their operations, less than one-third have managed to move beyond the pilot phase. Moreover, the last two years have seen little improvement in this situation (exhibit). For the majority of companies, the great wall to scale appears almost impenetrable.

Another brick in the wall… and more

Many hurdles can hamper an organization's efforts to roll out a new operating model, but we believe that five specific issues stand in the way of the majority of large-scale transformation efforts.

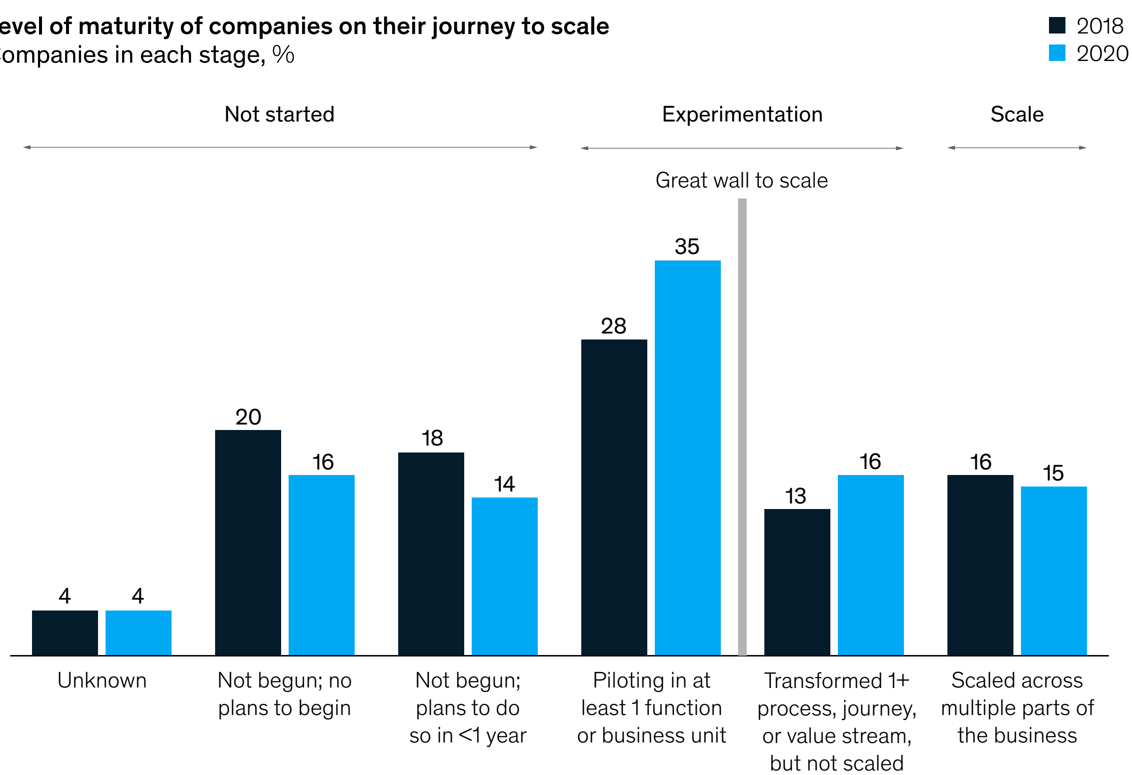
Distraction: losing senior-management attention. Transitioning to a next-generation operating model is not a one-off effort. Generating the first major, enterprise-wide improvements usually takes two to three years, and the building of a continuous-improvement engine to extract more value on an ongoing basis. These long time spans make it easy for top management to lose interest. Common symptoms include failing to formalize the transformation as one of the organization's top two strategic priorities, failing to translate the transformation ambition into tangible and measurable targets, and failing to adapt incentive systems to focus all layers of the organization on their role in the transformation.

Starvation: underfunding the effort. Our colleagues' Power Curve research indicates that the ability to rapidly shift financial and human capital to new strategic priorities is a crucial attribute of the world's most successful organizations. Yet, when it comes to operational transformation, too many companies are nervous about such bold moves. Leaders can be held

Exhibit 1

The great wall to scale separates pilot projects from enterprise-wide transformation.

Level of maturity of companies on their journey to scale
Companies in each stage, %



back by multiple factors, including risk aversion and the difficulty of challenging established cultures and operating models. Whatever the reason, the result is the same: the transition to a next-generation operating model is underfunded. The change team is expected to perform miracles, building the necessary excitement, momentum, and capabilities across the organization with only 25 to 50 percent of the investment it would need to drive real results. The experience of large companies that have successfully transformed shows that this requirement often translates to a resource allocation of more than $100 million.

Overextension: trying to run before you can walk. At the other end of the spectrum, some organizations become so galvanized by their vision that they try to do too much too soon, implementing multiple improvement levers in every business unit at once. Moving too fast makes it difficult for the organization to internalize the change. And having several groups climbing the learning curve at the same time can hinder the spread of institutional learning, leading to duplication of work and investments, and unnecessary complexity down the line. Excessive speed can also mean program teams are spread too thinly across the organization, unable to support or coordinate initiatives effectively.

Underestimation: ignoring the human factor. Despite the advanced technologies involved, the transition to a next-generation operating model is primarily a cultural and mind-set shift. For new technologies to add value at scale, they must be adopted by employees and customers alike. Companies that ignore this necessity quickly lose the confidence of both groups and fail to capture tangible gains from their investments. Underestimating the need for education, communication, and reskilling during a transformation has left many organizations in "pilot purgatory," with ineffective models that prove impossible to scale.

Tunnel vision: failing to rewire supporting structures. A successful next-generation operating model requires close attention to value streams, such as customer journeys or end-to-end processes, but this focus is not enough to support a transformation at scale. A company will also need to change how it works beyond operations, from revisiting incentive structures (so they improve cross-functional collaboration and effectiveness) to redesigning organizational structures (for clearer accountability on each major value stream). Without an aligned, supportive environment, a new operating model can wither and die.

The secrets of success at scale

From interviews with the leaders of companies that have successfully implemented new operating models, several factors emerged that can help lift an organization over the great wall of scale.

The right organization and governance

A leading emerging-market financial institution needed to pull several organizational levers to capture the full value of its transformation. A central part of the change was the shift from a function-based organization to one built around customer journeys. In its credit-card business, for example, the company integrated technology, sales, risk, compliance, and operations specialists into a single, multidisciplinary credit-card onboarding squad, which was given responsibility for the entire customer-onboarding process from end to end.

The company realized that to scale the next-generation operating model, it would need strong alignment though a company-wide change-management plan. Leaders created dedicated centers of excellence (CoEs) to standardize and disseminate new approaches, together with a transformation office to track progress and support change across the business. To ensure sustained leadership from the top down, the company created new leadership roles, such "journey owners" to oversee entire customer journeys, and made the transformation a priority for the whole C-suite agenda.

Appropriate metrics and incentives

A redefined operating model requires not only organizational changes, but also a shift in how performance is defined, tracked, and managed. These measures help drive behavioral change so that new processes and continuous-improvement systems become part of the company's DNA.

A North American life insurer now incentivizes its entire organization against a balanced set of metrics, including efficiency, quality, effectiveness, customer experience, and employee experience. Another organization includes both functional and cross-functional metrics, such as end-to-end turnaround time, in its scorecard for managers. That approach encouraged collaboration between functions, together with a set of formal forums to assemble all stakeholders in solving specific problems. Other organizations define success against both "run" metrics and "change" metrics, allowing leaders to make better tradeoffs between managing day-to-day operations and pushing the transformation forward.

Beyond metrics and incentives, high-performing companies also pay attention to their management culture. Empowering lower-level leaders to make decisions, innovate, and take appropriate risks is critical for any organization that hopes to evolve at speed.

A clear talent strategy

Skilled people are the fuel that powers every organization. Indeed, our research suggests that companies with effective capability programs are at least three times more likely to achieve a successful transition to a next-generation operating model .

Operating-model transformations require several distinct capability-building efforts. The largest of these is likely to involve a significant fraction of the organization's overall workforce, as automation and digitization alter skills requirements. In one cross-industry survey of more than 1,200 executives, almost 90 percent reported believing that they will face skills gaps in the workforce over the next five years. The scale of the upskilling and reskilling challenge will likely require companies to deploy capability-building programs that are broader and more rigorously monitored than is typical today. E-commerce giant Amazon, for example, is investing $700 million to train 100,000 employees for higher-skilled jobs.

An organization hoping to transform its operating model will also need people capable of driving change. That means developing a number of new or reimagined roles, including process designers, change agents, coaches, and trainers. A structured development program that recruits high-potential candidates from within the business, and allows them to develop new skills on the job, can simultaneously accelerate the implementation of the transformation program while building valuable capabilities for broader reskilling and change projects long-term.

Revamped support functions

To support the pace of change required to transform toward a next-generation operating model, organizations can increase the velocity at which they allocate and provide resources (both human and financial) to support functions.

From an HR perspective, this means the function provides the right set of skilled workers at the right time and the right cost. HR gets closer to its "customers" in the wider business, becoming a strategic partner that helps define new roles and capability requirements. HR will need to be nimble in response to rapidly evolving talent requirements, and innovative in the application of new acquisition strategies, external partnerships, and reskilling initiatives.

The finance function, on the other hand, can allow for rapid reallocation of financial resources, moving away from annual planning cycles and adopting a faster, more flexible quarterly business review to rapidly redirect funds where they are most needed and likely to have the highest return on investment. Finance also plays a role of "value assurance unit," ensuring that the objectives and key results (OKR) of agile squads' can be linked to financial metrics.

A strategic technology partner breaking down silos

Like HR and finance, the IT function will also want to adapt its operating model to work much more closely with its colleagues in operations. Effective teams cut across not only functions but also technologies, including automation and advanced analytics, with representation from roles such as architects, engineers, developers.

An important task for the IT function will be to continuously maintain and refresh its roadmaps across technologies and parts of the organization, so that the organization's technologies evolve toward a consistent, unified architecture. For example, one large bank invested tens of millions of dollars in its AI transformation without revisiting its IT architecture, or its data-management or data-security processes. Hampered by structural problems, the effort delivered only a handful of proof-of-concept applications in two years. To accelerate and energize its transformation, the bank's business and IT functions engaged in a six-week effort that redefined the organization's IT vision and roadmap.

The successful transition to a next-generation operating model will require organizations to overcome the barriers to scale that have hampered many earlier transformation efforts. That will mean looking beyond technology, with a sustained focus on the organization, talent, and enabling infrastructure. With the right foundation in place, organizations can deliver immense value: distinctive customer experience, resilient and nimble operations, and highly engaged and motivated employees.

Sohil Kalra is a consultant in the Toronto office; **Charles-Henri Marque** is an associate partner in the Chicago office, where **Rob Whiteman** is a partner; **Alexis Renaud-Bezot** is a consultant in the Montreal office; and **Ricardo Ribelles** is a consultant in the Santiago office.