Rewiring the organization

Welcome to the latest issue of *McKinsey Quarterly*.

Our cover story, “Rewired to outcompete,” is a refreshingly frank take on how companies can harness the power of digital and AI to achieve sustainable competitive advantage. Authors Eric Lamarre, Kate Smaje, and Rodney Zemmel call this “the defining business challenge of our time,” and the data back them up. McKinsey research shows that while 90 percent of companies have launched some type of digital transformation, only a quarter are realizing the value that they expected from the effort.

After analyzing large-scale digital and AI transformations across 200 companies, the authors found that long-term success depends on a C-suite’s willingness to build strong capabilities in six core areas. This kind of broad change calls for a fundamental organizational rewiring. In the new book *Rewired: The McKinsey Guide to Outcompeting in the Age of Digital and AI* (John Wiley & Sons, June 2023), the authors detail with remarkable clarity how business leaders can make this happen. As you’ll see in our excerpt, they provide a manual, not a theoretical academic tome. It’s a playbook detailing the steps that companies must take to continually create great customer experiences, lower costs, and build value.

The transformative potential of digital and AI drives several other stories in this issue. Our case study on American mining giant Freeport-McMoRan shows how AI can transform even the most industrial of businesses. In an oral history, the leaders of Walmart in Mexico describe the considerable organizational changes that were required to turn Walmex into a digital leader and an omnichannel force. And in “The art of data: Empowering art institutions with data and analytics,” Zina Cole, Ben Mathews, Richard Steele, and Loïc Tallon tell the surprising tale of museums and art institutions that are using data to reshape strategy and generate value.

Other highlights of the issue cover a wide variety of topics:

- *The Quarterly Interview: Provocations to Ponder* with Jony Ive is a deep dive into the creative process and what CEOs and business leaders can do to nurture innovative thinking at their companies. Ive, of course, enjoyed one of the great designer–CEO relationships in business history with Apple’s Steve Jobs. Our interview with him is a primer on what it takes for small creative groups to succeed within large organizations.
• “Middle managers are the heart of your company” is a revelatory take on the plight and potential of middle managers. In this excerpt from the forthcoming book Power to the Middle: Why Managers Hold the Keys to the Future of Work (Harvard Business Review Press, July 2023), authors Emily Field, Bryan Hancock, and Bill Schaninger look at how organizations can reap huge benefits by turning middle management into a destination, not a way station. (Here’s a hint: consider making Waffle House your role model.)

• “Working hard for the money” is an incisive look at what’s been happening with global profit pools over the past two decades. At a time when global GDP per capita has been increasing and notable companies have recorded soaring growth, the aggregate economic profits of companies have actually been going down. Marc de Jong, Tido Röder, Peter Stumpner, and Ilia Zaznov explore the reasons for this profit crunch—and dig into the implications as well.

Given all this talk of transformation, I can’t help but mention the Quarterly’s own ongoing digital evolution. We can now offer you a new way to engage with our content: a digital edition with all the elegance of the print magazine in an engaging package that helps reduce our collective carbon footprint. This new Quarterly offering is available via a free membership and includes bonus stories that we couldn’t accommodate in the print edition. It’s easy to sign up at McK.co/MQMembership, where you can learn about the other benefits of membership, including exclusive access to free downloads of McKinsey’s 100 most important reports.

As always, we welcome your feedback and hope you will be in touch: you can reach me at QuarterlyEditor@McKinsey.com.
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‘The creative process is fabulously unpredictable. A great idea cannot be predicted’

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Our proprietary research across 2,000 companies shows that it pays to operate as “one firm.” Here’s how top-performing organizations make it work.

Blair Epstein, Caitlin Hewes, and Scott Keller

Looking within: How Walmart in Mexico changed everything for an omnichannel future

The executive committee at Walmex had to lead differently to take the company into the digital age. They reflect on the changes in the organization and in themselves.
Outlook

Human progress up close in charts

Outlook illustrations by Jing Zhang
A closer look at progress

Microregions illuminate changes in the human experience.

How does life in one country compare with life in another? Does someone live in a rich society or a poor one? What is the average life expectancy in Africa, Asia, Europe, or North America?

These have always been the questions asked to get a handle on how people are living around the world. But a recent McKinsey Global Institute (MGI) report, Pixels of Progress: A granular look at human development around the world, offers an alternative. The report gathered and analyzed population patterns, economic performance, and life expectancy from 2000 to 2019 across more than 40,000 microregions. Each microregion averaged 3,000 square kilometers in area, 180,000 people, and $3 billion in GDP.

Prosperity looks different at the subcontinent, country, and microregion level.

Life expectancy and GDP per capita by region

- Emerging Asia
- India
- China
- Advanced Asia
- Sub-Saharan Africa
- Middle East and North Africa
- Eastern Europe
- Western Europe
- Latin America and Caribbean
- North America

Life expectancy in 2019, years

GDP per capita in 2019, log scale, $^*$

$^*$ international purchasing power parity, 2017.
The microregional view—230 times more granular than the more typical country view—revealed far more dynamism in economics and well-being than country-level averages suggest. It showed, for example, that in 2019, almost half of the world’s population enjoyed living standards that, just 20 years earlier, had been attained by only 21 percent of humanity.

Half of the additional GDP generated from 2000 to 2019 came out of only 3,600 microregions—collectively covering just 0.9 percent of the world’s total land mass—dispersed across 130 countries. Two billion people, or 27 percent of the global population, lived in them in 2019.

A chart examining GDP per capita across ten subcontinents looks largely as one might expect it to. Spheres representing North America, advanced Asia, and Western Europe dominate the top of the chart. Increase granularity to the country level, and a giant sphere representing China hovers below the countries with the highest incomes, followed by countries in Latin America and Eastern Europe. India is a huge bubble surrounded by smaller ones representing countries in emerging Asia. Middle Eastern and North African (MENA) countries are widely dispersed. All the countries in the lowest-income portion of the chart are in sub-Saharan Africa.

The pixelated view tells a more nuanced story. Spheres of the same color representing microregions in each of the ten regions noted above span both extremes of the map. There are microregions in sub-Saharan Africa, for example, where incomes are on par with communities in the wealthiest parts of the world. Likewise, many microregions in wealthier parts of the world have average incomes lower than some microregions in sub-Saharan Africa.

This more granular perspective uncovers the true breadth and depth of humanity’s progress and brings into sharper relief places that are being left behind.

This outlook is derived from “Pixels of Progress: A granular look at human development around the world,” on McKinsey.com.
Research by MGI examined socio-economic changes between 2000 and 2019. These time frames were chosen primarily due to the availability of data, but the span happened to coincide with some momentous transformations. Life expectancy, for example, increased for more than 99 percent of the world’s population.

GDP per capita also expanded greatly—and in some cases, more than would be apparent if only analyzed through a country view of economic well-being. In 28 countries, GDP per capita growth in dollars exceeded $7,100 from 2000 to 2019. But there were about 700 million more people living in microregions outside those 28 countries who also achieved GDP per capita gains of at least $7,100, putting them in the top 30 percent of economic income globally. On the other hand, within the 28 countries where GDP per capita growth was in the top 30 percent, 700 million people resided in microregions that did not make such gains.

Let’s look at two countries that illustrate the difference between the country and microregion views. On average, the United States and India achieved very different leaps in income from 2000 to 2019: an increase of $12,500 in the United States versus $4,150 in India. Yet in the United States, 120 million people, or a little more than one-third of the population, lived in 1,400 microregions where GDP per capita increased by less than $7,100. In India, 270 microregions—home to 114 million people in 2019—had GDP per capita gains of more than $7,100.

Averaging GDP per capita figures by country obscures nuances in the story of global prosperity and, at the country level, masks who is or isn’t participating in that prosperity.
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