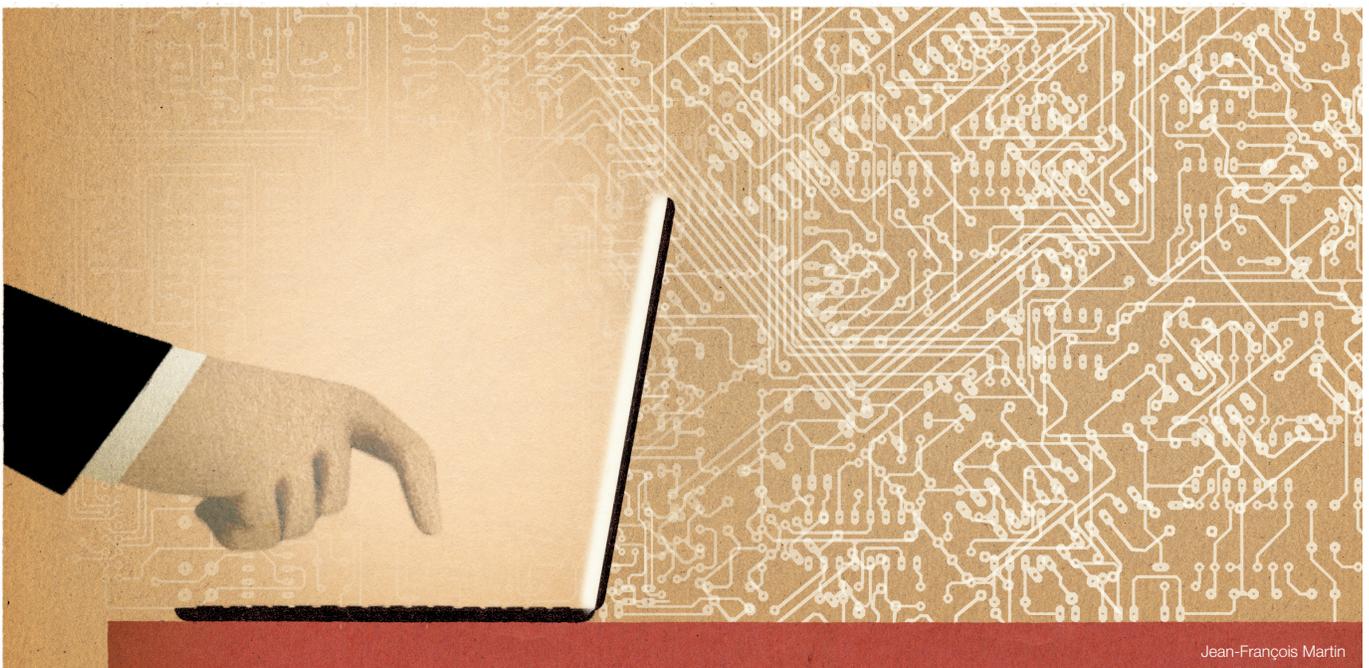


Cracking the digital code

McKinsey Global Survey results

Most companies have yet to realize digital's full value, and leadership and talent are among the biggest hurdles to success. Those making headway are reshaping strategies, devoting their best people to digital, and keeping them engaged.

Going digital is quickly becoming common practice—or at least a common mandate—at many companies. But while most executives have high expectations for the business benefits of digital initiatives, according to McKinsey's newest survey on the topic,¹ the results suggest that digital's promise seems more of a hope than a reality. Issues of scale remain a challenge, as they have in previous years.² Few executives say that their companies' business activities are more digital than not or that their companies have captured a meaningful share of the potential value that digital could bring their business. The most common hurdle to meeting digital priorities, executives say, is insufficient talent or leadership, which tops a longer list of complex challenges. The companies that are succeeding at digital (our "high performers") have a more active digital agenda than others, are more effective at attracting and retaining digital talent, and offer other lessons for success—among them, taking more risks in their digital programs, moving faster to implement initiatives, and reallocating their resources *and* their best people to digital work.



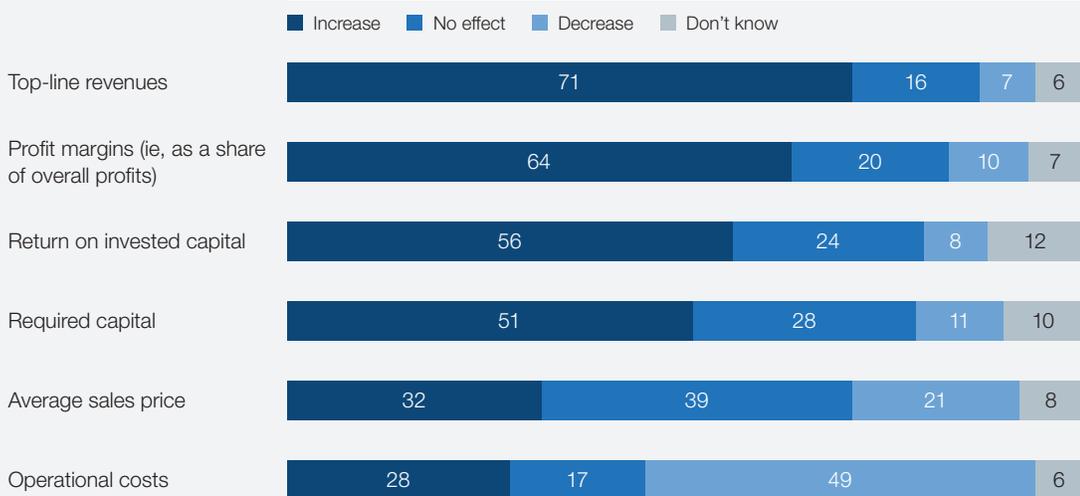
High hopes and growing support for digital

Across the C-suite, executives continue to report high expectations for digital’s impact on company growth (Exhibit 1). Seventy-one percent expect that over the next three years, digital trends and initiatives will result in greater top-line revenues for their business, and large shares expect their profitability will grow. What’s more, executives expect their companies to increase investments in digital initiatives—and they predict that the returns on these initiatives will increase in turn.

Exhibit 1 C-suite executives have high expectations for digital’s effect on their companies’ revenues and profitability.

% of respondents,¹ n = 987

Expected effects of digital on aspects of the business at respondents’ organizations, next 3 years²

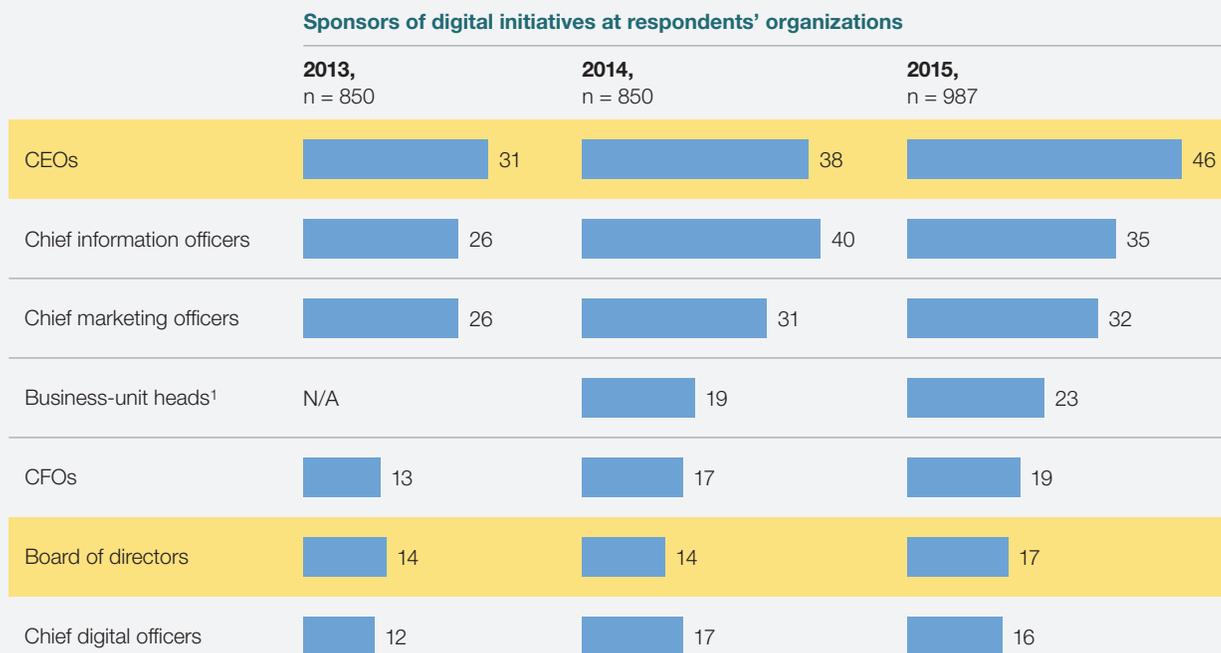


¹ Figures may not sum to 100%, because of rounding.

² Respondents were also asked about digital’s expected effect on gross margin on goods and/or services sold; 59 percent believe their organizations’ margins will increase due to digital trends and initiatives, 23 percent expect no effect on margins, 12 percent believe their margins will decrease, and 6 percent say they don’t know.

Exhibit 2 CEO sponsorship of digital initiatives continues to grow, while board involvement stagnates.

% of respondents



¹In 2013, we did not ask about business-unit heads and their support or involvement in digital initiatives.

For their part, company leaders are increasingly involved in digital. Nearly half of respondents say their CEOs personally sponsor digital initiatives (Exhibit 2), up from 23 percent in 2012, and CEOs are most often cited as leaders of their digital agendas. Board involvement, in contrast, remains low: only 17 percent of respondents say their boards sponsor such initiatives.

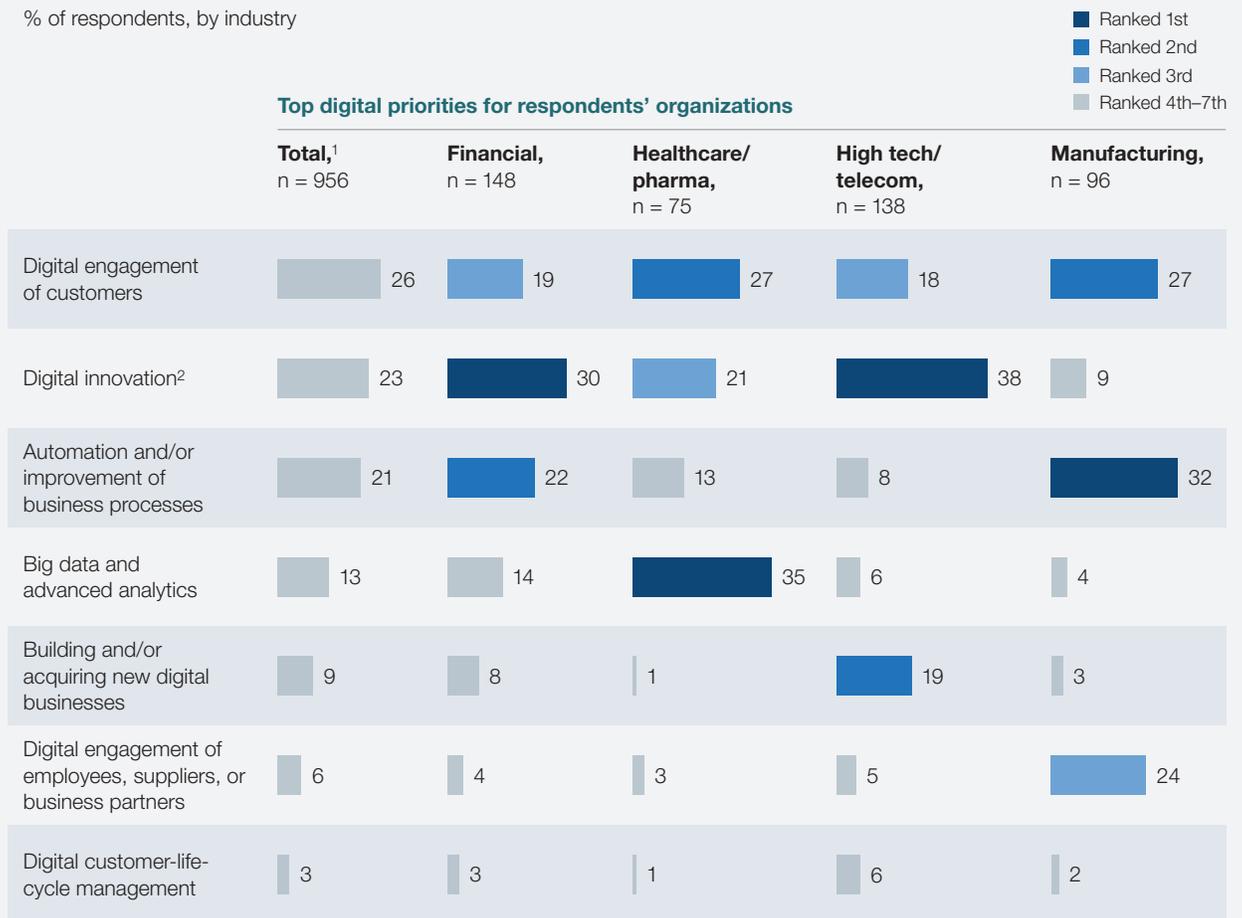
Changing course in response to digital

With expectations high and leadership involvement rising, it's no wonder that digital trends are changing fundamental aspects of the ways that companies do business. When considering how to align digital work with the broader organizational context, nearly two-thirds of executives say these initiatives are fully integrated in the existing business. And when asked about strategic objectives for digital, most executives say their programs focus on strengthening the existing business, rather than seeking growth through new businesses, profit pools, or geographies (which was also true in 2014).

How objectives translate into specific activities, though, has changed over time. While respondents most often rank the digital engagement of customers as the top priority on their agendas—for the fourth survey in a row—automation and/or the improvement of business processes has climbed. Just over half of respondents cite it as a top-three priority, right after the digital innovation of products, services, business models, or operating models. Companies’ priorities vary across industries, reflecting key sources of value in each sector: big data is a top priority in healthcare, for example, while automation is a greater focus in manufacturing (Exhibit 3).

Exhibit 3 The digital activities that drive value—and that companies prioritize—vary by sector.

% of respondents, by industry



¹ Respondents working in all other industries (ie, industries that are not represented by a statistically significant number of respondents) are not shown.

² Includes innovation of products and services, business models, or operating models.

What's more, many companies are adapting their strategies in response to digital trends, and respondents report a broad range of changes made in the past three years. The business-unit changes tend to be customer related and touch upon core aspects of the operating model. More than half of executives say that, in response to digital, their companies have adapted products, services, and touchpoints to better address customer needs. The most common change to corporate-level strategy is more frequent review of the portfolio for opportunities and challenges caused by digital trends. Only one in five say their companies have made none of the six portfolio changes we asked about in response to digital.

Ongoing challenges to capturing value

Despite the strategic changes under way, the survey suggests that most companies have a long way to go to realize the full benefits that executives expect. Less than one-third say most or all of their companies' business activities are digital in nature. And nearly half say their companies are capturing just 20 percent or less of the potential value that digital activities could bring to their business.

When asked about specific challenges to meeting digital priorities, executives cite a variety of hurdles that reflect the complexity and difficulty of implementing a successful digital program. A lack of leadership or digital talent tops the list, followed closely by a limited understanding of how digital trends affect the company and industry, difficulty keeping pace with digital development, and an inability to adopt an experimentation mind-set (Exhibit 4). Other challenges related to strategy and governance, such as misaligned incentives between digital and traditional businesses, are not far behind.

The talent challenge has been particularly persistent; respondents identified it as a critical bottleneck in the past two surveys, too. As in 2014, executives most often cite analytics and data science as the area where their organizations have the most pressing needs for digital talent, followed by mobile development and user experience (which we asked about for the first time this year).

Executives cite a variety of hurdles that reflect the complexity and difficulty of implementing a successful digital program. A lack of leadership or digital talent tops the list.

Exhibit 4 Lacking leadership and talent tops the list of challenges companies face in meeting their digital priorities.

% of respondents,¹ n = 987

Most significant challenges to meeting priorities for digital programs



¹ Respondents who answered "don't know" are not shown.

Learning lessons from high performers

While digital's challenges are commonplace, some executives indicate that their companies are out-performing others.³ Respondents at these high-performing companies report more active digital agendas: three-quarters say a majority of their business activities are digital in nature, compared with 34 percent of their peers. According to respondents, high performers are also likelier than others to adhere to the following practices that could serve as valuable lessons for developing a successful digital program:

Build a risk-taking culture. Responses suggest a close link between strong digital performance and an organizational culture that encourages risk taking. Indeed, the executives who report ample organizational support for adopting risky digital initiatives are twice as likely to work for a high-performing company as executives reporting resistance to risky initiatives due to fear of failure.

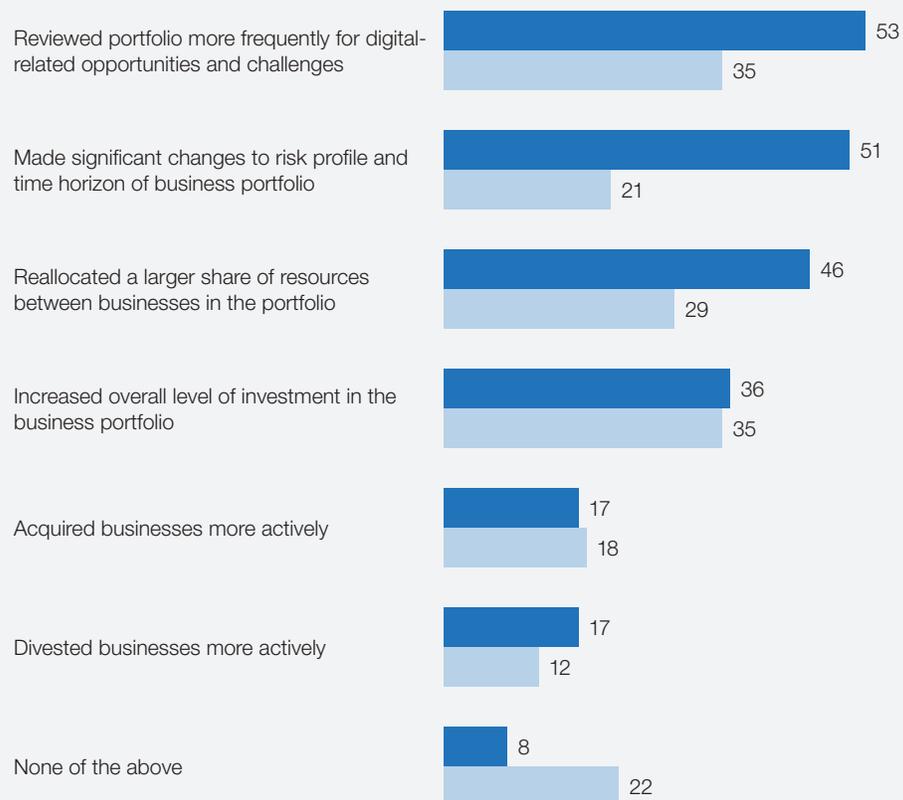
Put your money (and resources) where your mouth is. According to their responses, the high performers don't invest significantly more than others in their digital initiatives. But they are far more likely than others to spend their money differently. Just over half of high performers say their companies review the corporate portfolio more frequently because of digital (Exhibit 5). Similar shares say their companies have reallocated a larger portion of resources and have changed the risk profiles and time horizons of their portfolios—a willingness to change that other respondents report much less often.

Exhibit 5 The best-performing digital companies review their portfolios more often and make more significant portfolio changes than others do.

% of respondents¹

■ Respondents at high-performing organizations,² n = 71
 ■ All other respondents, n = 916

Changes to corporate business portfolio made in response to digital trends, past 3 years



¹ Respondents who answered “don’t know” are not shown.

² Respondents who say that their organizations have had a higher or much higher rate of organic growth compared with competitors over the past 3 years and that their organizations’ digital programs have met their objectives very effectively in the past 3 years.

Dedicate the best people to digital—and then keep them engaged. Beyond investments, the reallocation of people matters, too. At the business-unit level, the high performers are more than twice as likely as others to say they've dedicated their best people and resources to their companies' digital initiatives.

And while they agree with others that good culture is among their most important talent assets, the high performers stand apart, thanks to the nature of their digital work. Forty-seven percent say cutting-edge digital work helps them attract and retain digital talent, while just 27 percent of others say the same (Exhibit 6). Furthermore, compared with other respondents, the high performers more often report strong digital leadership, true ownership for initiatives, and clear career paths for digital employees.

Move quickly. Given how digital trends keep accelerating business change, speed is of the essence. Indeed, 43 percent of high performers say their companies take digital initiatives from idea to implementation in less than six months. Only 17 percent of all other respondents report the same.

Lead from the top. Finally, involvement from company leaders is critical. Two-thirds of high performers say their CEOs personally sponsor digital initiatives at their companies, compared with 44 percent of their peers—and companies with CEO sponsors are twice as likely to be high performers as companies whose CEOs aren't directly engaged in digital. Similarly, the boards at high-performing companies tend to be more involved: 35 percent of high performers say their boards sponsor digital initiatives, while 16 percent of all others say the same.

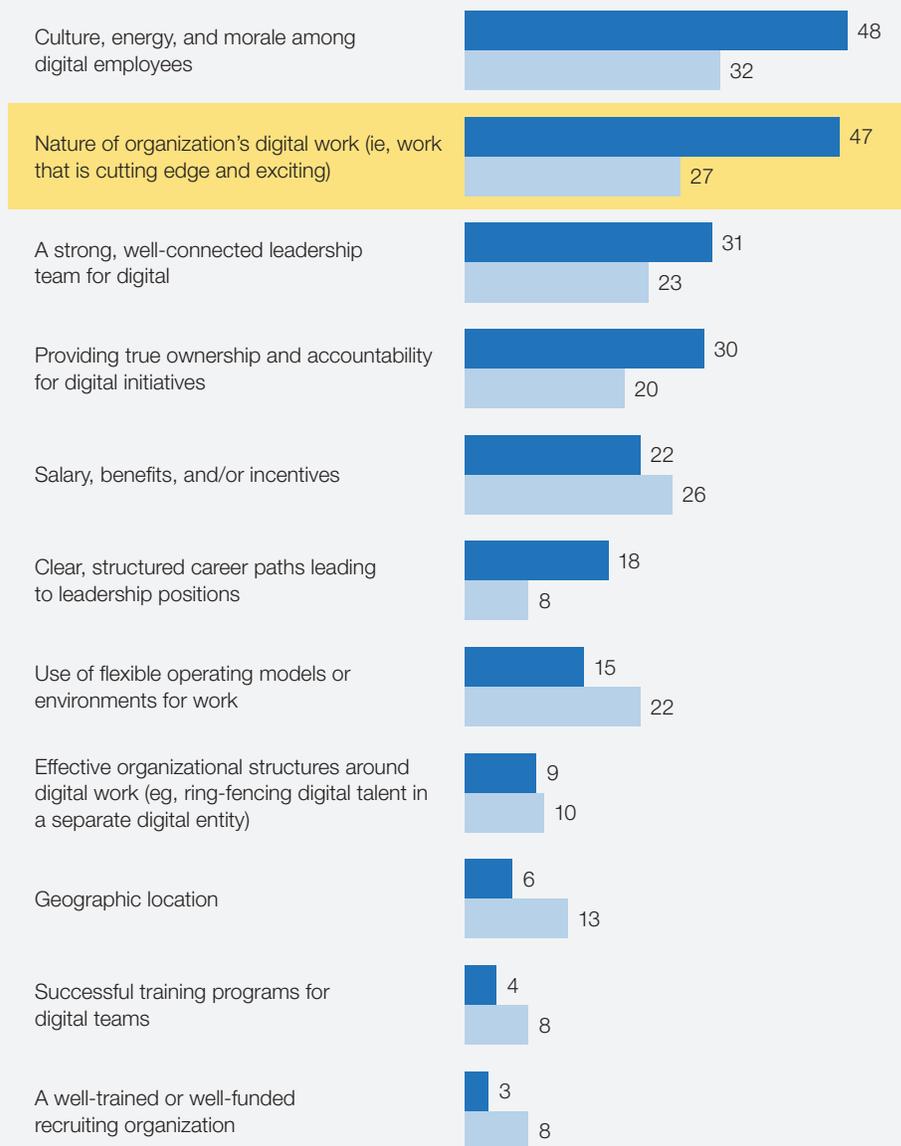
The highest-performing digital companies build a risk-taking culture, frequently reallocate resources, dedicate their best people to digital work, move quickly to implement initiatives, and have leaders who are involved in digital.

Exhibit 6 High performers use different tactics, such as cutting-edge work, than others to keep digital talent.

% of respondents¹

■ Respondents at high-performing organizations,² n = 71
 ■ All other respondents, n = 916

Assets that most help respondents' organizations attract and retain digital talent



¹ Respondents who answered "don't know/not applicable" are not shown.

² Respondents who say that their organizations have had a higher or much higher rate of organic growth compared with competitors over the past 3 years and that their organizations' digital programs have met their objectives very effectively in the past 3 years.

Looking ahead

- *Scale up digital with an integrated approach.* The results indicate that few companies have brought their digital programs to scale and that most business activities aren't yet digital in nature. Companies are more likely to ensure that digital delivers value in all parts of the business when they combine growth- and efficiency-oriented digital strategies—that is, by simultaneously pursuing initiatives such as digital customer engagement, innovation (of products, processes, and operating models), automation, and advanced analytics. Putting top digital talent in charge of an integrated strategy will also ensure that companies' digital efforts deliver value at scale. But companies can do more to integrate digital initiatives across the organization—for example, developing and retaining digital talent (and leadership) at scale. Beyond a ring-fenced group of digital experts, companies should build digital capabilities more broadly and groom larger groups of digitally skilled people across the organization. They should also develop a high-performance culture around digital initiatives; this will incite and foster digital work that challenges traditional ways of doing business.⁴
- *Get the board involved.* It's laudable that more CEOs are sponsoring digital initiatives—a reflection of digital's strategic importance and the complexity of getting it right—but more leaders, including the board of directors, must follow suit. Boards are best positioned to ensure full C-suite involvement in the digital agenda, so they must engage company leaders more by asking the right strategic questions about digital opportunities and threats and by aligning stakeholders across the company. Boards can also support executives in reallocating significant, long-term resources toward digital, while fending off pressure against such investments from more established parts of the business. Finally, boards can create the space for incentives that support bold, even risky, decisions in digital.
- *Bring a digital rhythm to corporate strategy.* In our experience, many companies plan and deliver on their digital agendas within 12 months, while they assess overall corporate strategy and resource allocation on much longer time horizons. The result is misalignment between the digital agenda and corporate strategy and reallocation that's too slow, which could mean the difference between a digital initiative's success and failure. Companies must increasingly adjust their approaches to corporate strategy to

align with (and get the most out of) their digital agendas. What's more, they must build stronger test-and-learn capabilities to move fast and learn as they go. Greater speed, continuous experimentation, and data-based feedback loops will allow businesses to evolve strategies more rapidly, make bigger changes faster, execute and build competitive advantages, and stay in tune with external change. ■

¹ The online survey was in the field from April 21 to May 1, 2015, and garnered responses from 987 C-level executives representing the full range of regions, industries, and company sizes; 13.5 percent of these executives have a technology focus. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

² See "The digital tipping point: McKinsey Global Survey results," June 2014, mckinsey.com; and "Bullish on digital: McKinsey Global Survey results," August 2013, mckinsey.com.

³ We define an outperforming company (or a "high performer") as one that, according to respondents, has had a higher rate of organic growth than competitors and has met the objectives of its digital program very effectively over the past three years.

⁴ For more information on best practices related to digital strategy, capabilities, and culture, see Tanguy Catlin, Jay Scanlan, and Paul Willmott, "Raising your Digital Quotient," *McKinsey Quarterly*, June 2015, mckinsey.com.

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