

Digital transformation: Improving the odds of success

Most digital transformations don't yield the benefits that leaders expect. New research shows that five practices maximize the chance of extraordinary outcomes.

by Jacques Bughin, Jonathan Deakin, and Barbara O'Beirne

For established companies, the pressure to digitize business models and products has reached new intensity. McKinsey research shows that the best-performing decile of digitized incumbents earns as much as 80 percent of the digital revenues generated in their industries.¹ Ascending to that elite group is far from easy. In a new survey of more than 1,700 C-suite executives, we learned that the average digital transformation—an effort to enable existing business models by integrating advanced technologies—stands a 45 percent chance of delivering less profit than expected. The likelihood of surpassing profit expectations, on average, is just one in ten.²

The good news is that executives can decisively increase the chance that a transformation focused on digital enablement will beat performance expectations. (For more of McKinsey's research on the success factors in broad business transformations, see "Why your next transformation should be 'all in'" and "The numbers behind successful transformations," on McKinsey.com.) Our latest research shows that exceptionally effective digital transformations are distinguished mostly by the practices that executives choose to follow. Adhering to a well-defined set of transformation practices lifts the likelihood of exceeding profit expectations to more

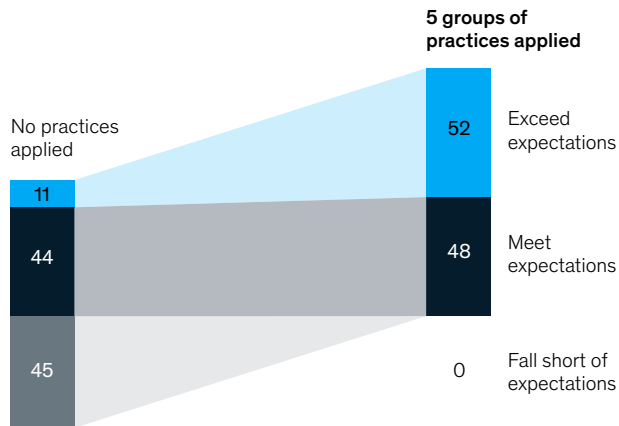
¹Jacques Bughin, James Manyika, and Tanguy Catlin, "Twenty-five years of digitization: Ten insights into how to play it right," McKinsey Global Institute, May 2019, McKinsey.com.

²The 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.

Exhibit 1

Applying five groups of digital-transformation practices maximizes the likelihood of exceeding performance expectations.

Likelihood of 3 outcomes for digital transformation, %



than 50 percent—about five times better than transformations that involve none of these practices (Exhibit 1). What’s more, the same combination of practices works for every type of digital-enablement effort that our survey covered.

To derive this conclusion, we analyzed our survey results in two ways. We used multiple machine-learning classification techniques to identify “clusters” of digital-transformation practices that are closely associated with expectation-beating performance. We also used regression analyses to home in on practices that had an unusually large effect on improving a digital transformation’s outcomes relative to expectations. With those complementary methods, we isolated transformation characteristics that are statistically significant in both explaining and predicting the likelihood of exceptional success. Emerging from that analysis were five thematic groups of practices that particularly move the performance needle. Following just two groups of practices greatly reduces the likelihood that a transformation will miss expectations. Applying the practices in all five groups maximizes the chance that a company’s digital transformation will exceed performance expectations—echoing research by our colleagues who recommend that your next transformation should be all in (Exhibit 2). These practices are as follows:

Laying out clear priorities

In digital transformations, focusing on a few clear themes that are tied directly to measurable business outcomes is conducive to achieving better results. Survey respondents who said that their companies had defined their digital transformations in this way were 1.7 times more likely than others to report that the transformation’s results had surpassed expectations. The chance that a digital transformation will be

exceptionally effective is also higher when executives determine which elements of the transformation involve “hard to reverse” choices that are critical to the company’s direction and agree on how to approach those elements.

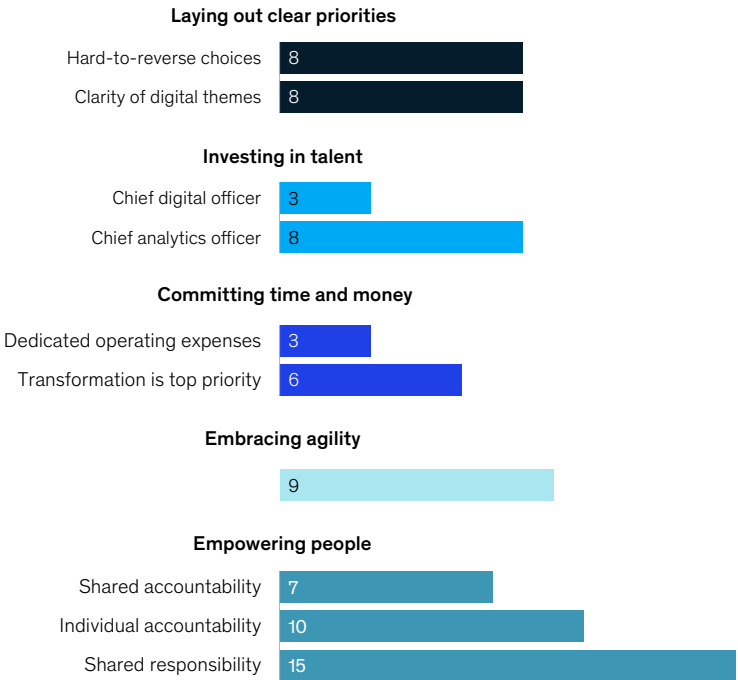
Investing in talent—especially at the top

Digital enablement tends to produce better results when a company puts emphasis on attracting and developing highly talented people and hires employees with strong digital and analytics capabilities. It’s also evident that transforming into a digital company requires the addition of specialized leaders. The chief digital officer (CDO) is an essential member of the leadership ensemble: all successful companies have a CDO. The chief analytics officer (CAO) has become an even more important leadership role for effective digital transformations. (For more on companies’ efforts to build a culture grounded in advanced analytics, see “The analytics academy: Bridging the gap between human and artificial intelligence,” on McKinsey.com.) Our latest analysis shows a clear link between employing a CAO and outperforming expectations.

Exhibit 2

Individual practices have varying effects on the likelihood that a digital transformation will beat performance expectations.

Added likelihood of expectation-beating performance associated with each practice,¹ %



¹Percentages shown are in addition to an 11% likelihood of expectation-beating performance for transformations where no practices are applied. Increases correspond to individual practices; they are not cumulative.

Committing time and money

Even with a solid set of priorities and skillful people on board, executives can find it difficult to sustain their focus on digital enablement. They mustn't let themselves become distracted. Among the digital transformations we studied, expectation-beating performance was 1.5 times more likely when survey respondents said the digital transformation has been a top priority for the company's senior leaders. Companies must also reserve sufficient funds for their digital transformations. Respondents who said their companies had allocated operating expenditures toward the digital transformation were 1.3 times more likely to say that the transformation had surpassed expectations.

Embracing agility

The breakneck speed at which competitors and customers move in the digital economy means that businesses must revisit and rearrange their priorities more often than ever. We're seeing that top economic performers update their digital strategies much more frequently than other companies.³ Similarly, our survey shows that respondents whose companies adhered to agile practices were nearly twice as likely to report that digital-transformation efforts had beat performance expectations. This kind of agility often manifests itself throughout the business. Other McKinsey research shows that in successful digital transformations, employees are more likely to be rewarded for generating new ideas, taking appropriate risks, and following test-and-learn practices as they pursue opportunities.⁴

Empowering people

Our research highlights the performance gains that result from reinforcing digital enablement's importance for employees at all levels, not just in the upper ranks. Digital transformations are more likely to be exceptionally effective when companies give people clear roles and responsibilities and put an "owner" in charge of each transformation initiative. The chance of superior outcomes also rises when companies hold people accountable for meeting the individual goals they've been given. Finally, a digital transformation is more likely to beat performance expectations if a company balances the expectations it sets for individuals with its expectations for larger groups and for the organization as a whole. Survey respondents who said their companies had fostered a shared sense of accountability for meeting the digital transformation's objectives were more likely to report that outcomes had exceeded expectations.

These weren't the only results. Our analysis also showed that the likelihood of realizing better-than-expected transformation outcomes appears to be independent of the outcomes (such as more sales through digital channels, stronger customer

³ "A winning operating model for digital strategy," January 2019, McKinsey.com.

⁴ "Unlocking success in digital transformations," October 2018, McKinsey.com.

relationships, lower operating costs, or better-quality offerings) a company sets out to achieve. And it suggested that the odds of beating profit expectations are similar regardless of the functional areas of the organization, such as operations or marketing and sales, that the digital effort is focused on enabling.

The absence of clear performance relationships in those areas makes all the more striking the strength of the link between the five practices we identified and the outcomes of digital-enablement efforts. A management team may have little control over the strength of the digital competition it faces, or the extent to which its industry has already digitized or begun experiencing shifts in its boundaries. But it has considerable influence over the degree to which the organization's digital-transformation approach embraces these practices—which can lessen uncertainty and bring extraordinary results within reach. Q

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