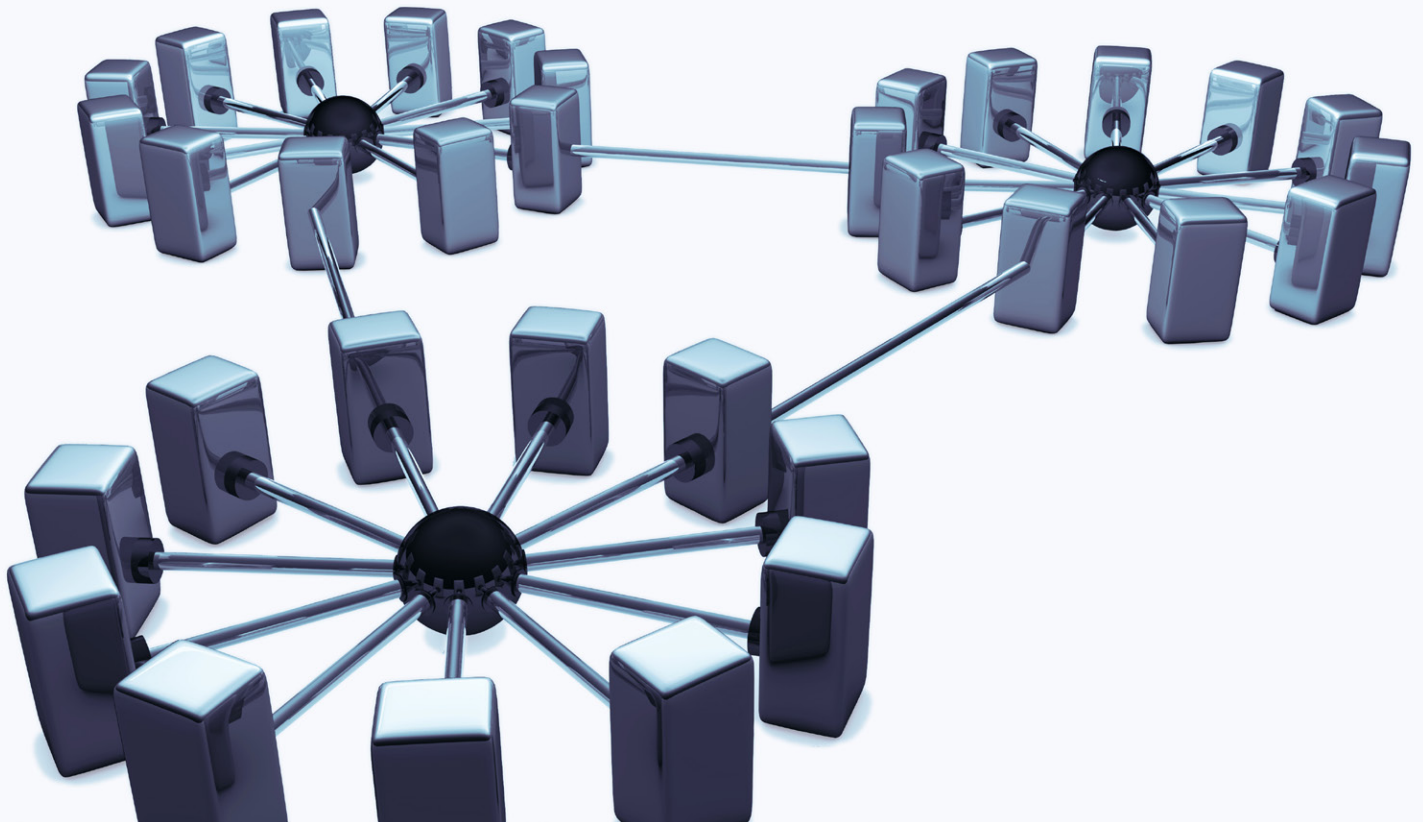


Strategy & Corporate Finance Practice and McKinsey Digital

Three new mandates for capturing a digital transformation's full value

Most organizations achieve less than one-third of the impact they expected from recent digital investments. What can companies learn from the best performers about how to beat the odds today?



Success with digital transformations, and transformations in general, has always been hard to come by.¹ The challenge has only become more acute over the past two years, when companies' adoption—and the strategic importance—of digital technologies accelerated dramatically. Now, organizations are under even more stress to make consequential business decisions not only at a faster pace but also in business areas that may have no previous experience with or knowledge of digital tech or transformations.²

While some of the obstacles to digital-transformation success are well known, our newest McKinsey Global Survey on digital strategy and investments asked business leaders about the evolution of these challenges, digital tech's role in their businesses, and companies' strategic responses.³ Nine in ten C-level and senior leaders say their organizations have pursued at least one large-scale digital transformation in the past two years.⁴ And while many respondents say their companies haven't seen the impact on revenue or costs that they expected, those working at "top economic performers"⁵ are much more likely than their peers to report value from these efforts.

We looked closely at what the top-performing companies are doing differently from the rest. While many of the traditional challenges to digital transformation remain, three new factors have emerged as critical to capturing value from them today—and going forward:

- the use of digital tech to achieve strategic differentiation on customer engagement and innovation rather than cost efficiencies—and bolder digital strategies that are more likely to be successful than more incremental ones
- the development of proprietary assets, such as AI, data, and software, rather than a reliance on off-the-shelf tools
- a focus on attracting and developing tech-savvy executives and on better overall integration of tech talent into the organization rather than just getting new tech talent in the door

The value at stake from digital transformations

While organizations have made massive tech-driven changes over the past two years, the survey results suggest that they have captured much less of the value than respondents initially expected (Exhibit 1). But top economic performers do significantly better than their peers do. At top performers, respondents report capturing a median of 50 percent of the full revenue benefits that their recent transformations could have achieved, compared with a median of 31 percent across all respondents—and 40 percent of the maximum cost benefit, compared with 25 percent across all respondents.

We see the same disparity when it comes to sustaining a digital transformation's benefits. While few respondents overall say their companies have sustained the financial and operational benefits

¹ "Five moves to make during a digital transformation," McKinsey, April 24, 2019.

² Jacques Bughin, Tanguy Catlin, Martin Hirt, and Paul Willmott, "Why digital strategies fail," *McKinsey Quarterly*, January 25, 2018.

³ The online survey was in the field from January 25 to February 4, 2022, and garnered responses from 1,331 C-level executives, senior managers, and business unit, department, or division heads representing the full range of regions, industries, company sizes, and functional specialties.

⁴ The survey asked about three types of digital transformations or investments: making technology-based changes that enable the core business's future competitiveness (for example, digital-ready architectures and platforms, cloud enablement, and open interfaces), making tech-based changes to the core business (for example, embedding AI into the current business's operations, increasing digital interactions with customers, and building proprietary software) to differentiate the company from competitors strategically, and building a new digital business that is separate from the core business.

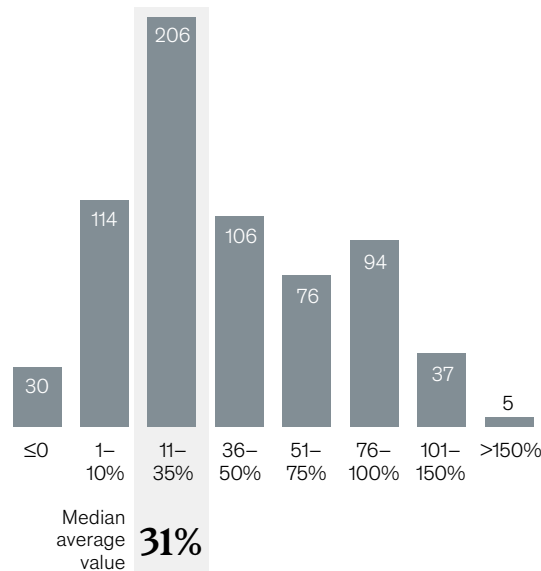
⁵ We define "top economic performers" as companies where respondents report increases of at least 15 percent in their organizations' revenue and in EBIT over the past three years.

Exhibit 1

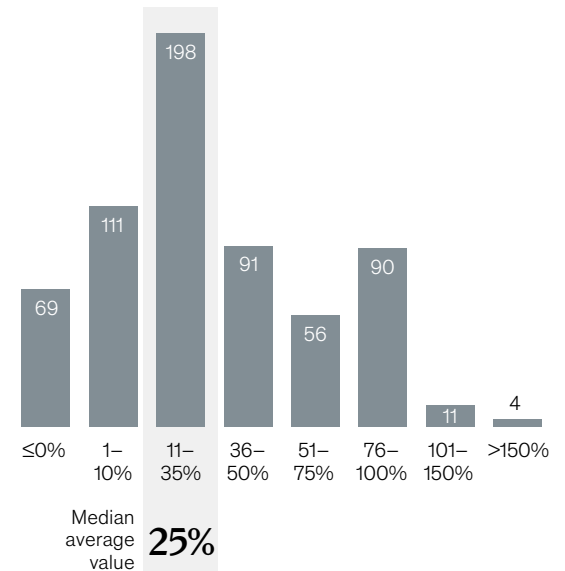
Organizations capture less than one-third of the value that respondents expected to see from recent digital transformations and initiatives.

Reported share of realized and sustained best-case financial benefits from digital transformations, number of respondents¹

Expected revenue increase (n = 668)



Expected cost reduction (n = 630)



¹ Respondents who answered "don't know/not applicable" for each measure—revenue increase and cost reduction—not shown. Best-case financial benefits¹ defined as maximum benefit that digital transformations could have achieved. Source: McKinsey Global Survey on digital investments and transformations, January 25–February 4, 2022, of 1,331 business leaders

over time, the top economic performers fare much better than the others (Exhibit 2). This is true for all three types of digital transformations that we asked about: building new digital businesses, strategically transforming the core business with digital tech, and updating the core business's tech to ensure future competitiveness. Of the three, new-business building is most difficult: 70 percent of respondents whose companies built a new business say they didn't successfully sustain their financial and operational targets, a finding that is consistent with our earlier research on business building.⁶

Yet the survey results suggest that many companies are building new digital businesses for reasons other

than strictly financial ones, which could explain why a new business is less likely than a core business to hit its targets. For example, only one-third of respondents say their companies are building new digital businesses to provide new sources of revenue. A nearly equal share say they are doing so to build a presence in strategically important markets or industries, and one in five respondents report that their companies are doing so to incubate new digital capabilities for the organization.

The results also suggest that companies with higher aspirations for digital tech tend to see better outcomes than other companies do.⁷ They are more likely than their peers to say they have successfully

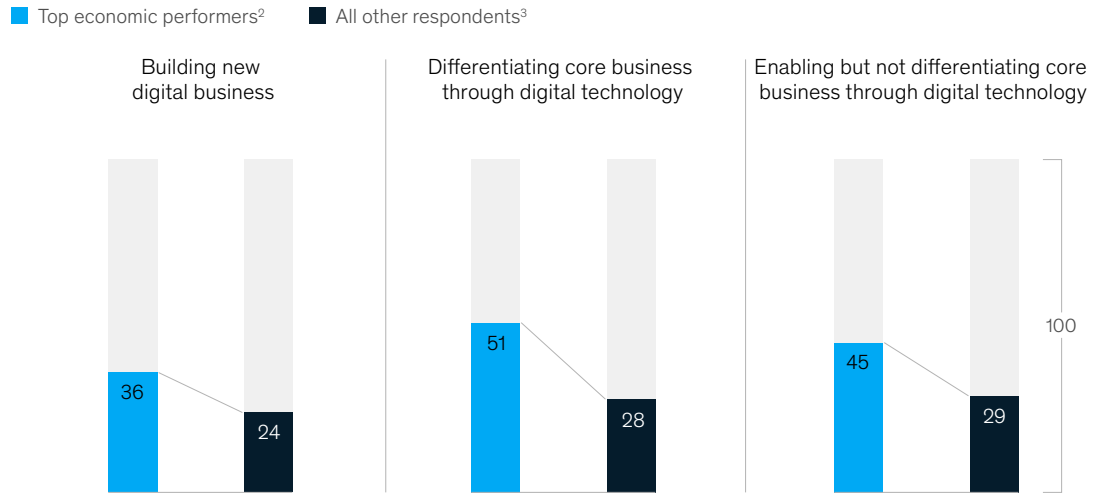
⁶ "2021 global report: The state of new-business building," McKinsey, December 6, 2021.

⁷ We define companies with "higher aspirations" as those where respondents believe that, over the next two years, digital tech will either be a significant differentiator or be most or all of the solution (for example, a new software business or app) in helping their organizations achieve their strategic aspirations; n = 480. The other answer choices offered were "no significant role in strategic aspirations," "a minor enabler," or "a significant enabler."

Exhibit 2

While few companies have sustained the benefits of a digital transformation over time, the top economic performers fare much better.

Success rate for sustaining digital transformation's targets, % of respondents¹



¹Includes respondents who said their organizations were "completely successful" or "very successful" in sustaining the achieved financial and operational targets. Respondents answered only for digital transformations that their organizations have pursued in past 2 years.
²Companies with respondents who reported increases of $\geq 15\%$ in their organizations' revenue and EBIT over past 3 years; n = 162. For "building new digital business," n = 33; for "differentiating core business," n = 81; and for "enabling but not differentiating core business," n = 114.
³For "building new digital business," n = 255; for "differentiating core business," n = 603; and for "enabling but not differentiating core business," n = 945.
Source: McKinsey Global Survey on digital investments and transformations, January 25–February 4, 2022, of 1,331 business leaders

sustained the benefits from their digital investments and nearly twice as likely to say so when revamping their core business with digital technology. That is in line with our experience that digital strategies that involve incremental changes or lack ambition don't deliver the economic success that bolder digital strategies do.

How top economic performers are beating the odds

The survey results show that the best-performing organizations set themselves apart from their peers both in economic terms and when it comes to achieving and sustaining success from digital transformations. But what exactly are top economic performers doing differently that enables them to beat the odds?

Setting ambitious customer engagement and innovation strategies

When we asked respondents how their companies plan to differentiate their overall business strategies from competitors' over the next two years, we found that the top economic performers are focusing on customer engagement and innovation strategies. Additionally, they are less likely than peers to focus on operational efficiency.

We see a similar focus on customer engagement and innovation among organizations that are looking to tech to create strategic distance from competitors, and related results suggest that doing so is becoming a more common goal. In our past research,⁸ the share of companies doing so was small (outside of the high-tech industry).⁹ Now, more than one-third of all

⁸"How digital reinventors are pulling away from the pack," McKinsey, October 27, 2017.

⁹"Unlocking success in digital transformations," McKinsey, October 29, 2018.

respondents say tech will be a key differentiator of their companies' strategies.

Compared with others, respondents at top-performing companies also report bolder strategic aspirations and bigger bets on tech (Exhibit 3). For example, they plan to spend twice as much of their overall digital and tech budgets on building new digital businesses than peers do.

Building proprietary assets

If a company wants to differentiate itself through better customer engagement and innovation, it needs to have several core tech capabilities in place—and the survey results show that the top-performing companies are more likely to have invested in such capabilities (Exhibit 4). For example,

top performers are more aggressive than their peers in adopting automated processes to test and deploy new tech, as well as agile and DevOps practices that enable faster innovation and execution while keeping costs down. Top performers are also significantly ahead of their peers in their adoption of the public cloud, which helps them become more agile, more efficient, and better able to maximize the value they get from other digital investments.

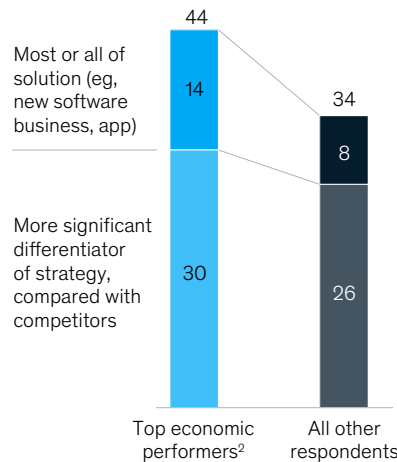
Perhaps more surprising than top performers' stronger capabilities is the degree to which they are disproportionately building—and, in some cases, monetizing—proprietary assets, such as software, AI, and data. While nearly two-thirds of respondents say their companies have invested in software as a service or modern commercial software, the top

Exhibit 3

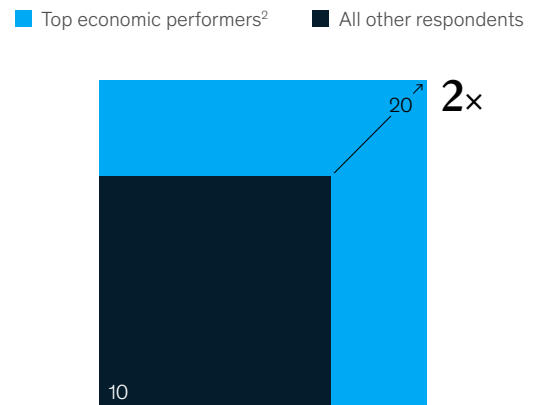
Compared with peers, the top economic performers report bolder strategic aspirations and bigger investments in new digital businesses.

Expectations for organization's digital technology, next 2 years, % of respondents

Role that digital tech will play in achieving strategic aspirations¹



Share of digital-tech spending that will be allocated to building new digital businesses³



¹Respondents who answered "no significant role," "a minor enabler," "a significant enabler," or "don't know/not applicable" not shown. For top economic performers, n = 162; for all other respondents, n = 913.

²Companies with respondents who reported increases of ≥15% in their organizations' revenue and EBIT over past 3 years.

³Respondents who answered "don't know/not applicable" not shown. For top economic performers, n = 113; for all other respondents, n = 614.

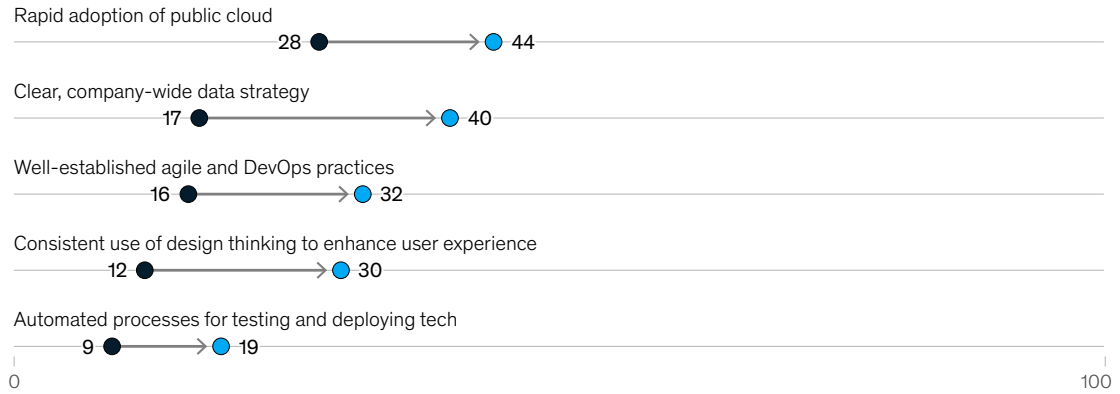
Source: McKinsey Global Survey on digital strategy investments and transformations, January 25–February 4, 2022, of 1,331 business leaders

Exhibit 4

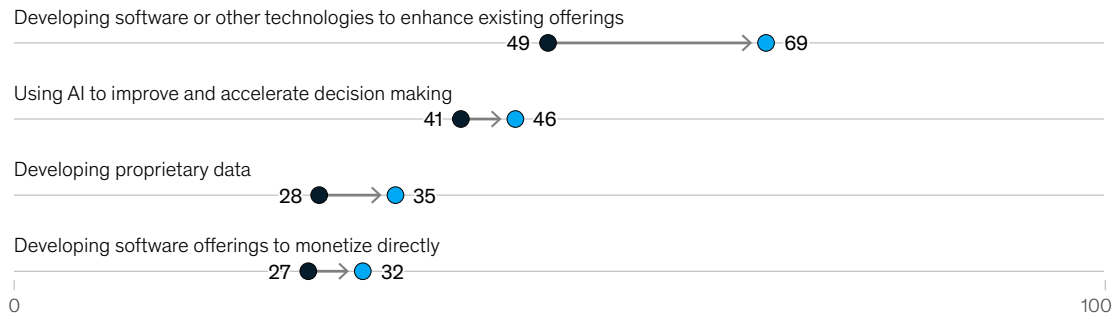
Top economic performers are already investing disproportionately in key technology capabilities and their own tech assets.

● Top economic performers¹ ● All other respondents → Gap

Digital-technology capabilities in which organization has invested, % of respondents²



How organizations will achieve their strategic aspiration through differentiated digital tech, next 2 years, % of respondents³



¹Companies with respondents who reported increases of ≥15% in their organizations' revenue and EBIT over past 3 years.

²For top performers, n = 162; for all other respondents, n = 913.

³Question was asked only of respondents who said digital technology would be a significant differentiator or most/all of the solution in helping their organizations achieve their strategic aspirations for next 2 years. For top economic performers, n = 71; for all other respondents, n = 314.

Source: McKinsey Global Survey on digital investments and transformations, January 25–February 4, 2022, of 1,331 business leaders

performers are doing much more. Respondents at those companies are more likely than others to say they are developing their own high-performing software, and they build common components into their software that is shared across an internal platform. What's more, nearly 70 percent of the top economic performers, compared with just half of their peers, plan to use their own software to differentiate.

Closing the talent gap for tech-savvy leaders

Failing to find the right frontline tech talent is a perennial obstacle to improving companies' digital performance. Yet the survey results suggest that it's not just about frontline talent: tech-savvy executives play an equally, if not more, important role in today's tech-driven business environment.

When we asked respondents about their organizations' biggest challenges with in-house tech talent, their responses indicate that it's harder to attract and reskill tech-savvy executives than it is frontline technical talent—and that it's equally hard to integrate each group into the organization (Exhibit 5). The top economic performers, though, are more effective than their peers in managing executive talent (Exhibit 6), consistent with our earlier findings that top economic performers are more likely than their peers to have a tech-savvy C-suite.¹⁰

What's more, top performers are better than others at integrating (and retaining) new hires in tech roles—a critical advantage, as tech talent has only become scarcer in the past two years. And

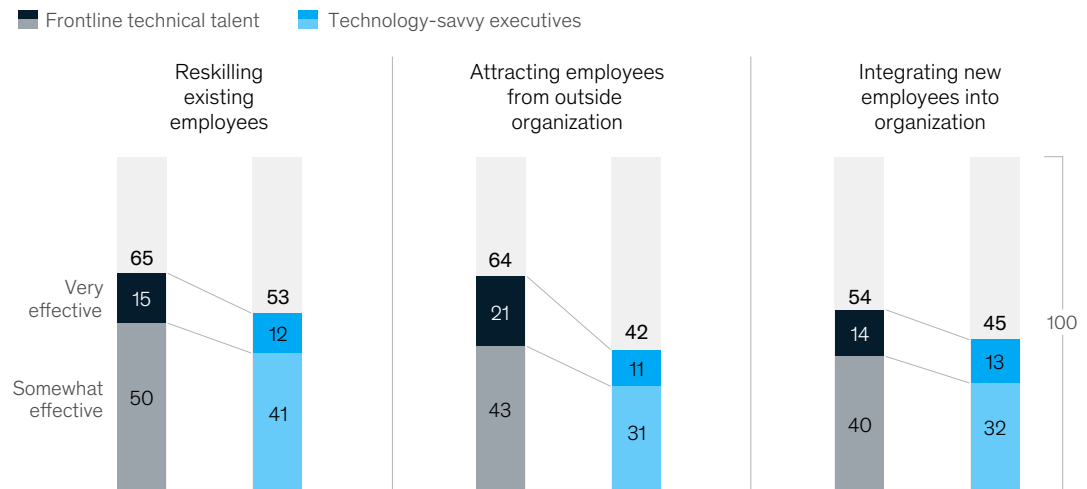
while there is significant debate about whether organizations should bring all of their tech talent in house or partner with others to access top talent, we see top-performing companies doing both. Another practice that seems to make a big difference: top performers are more likely than other companies to integrate new hires in digital roles directly into the business rather than the IT function.

Besides executives, there is another group that even the top-performing companies struggle to attract and retain: high-quality product managers. That role is key to strengthening a company's capabilities for developing software—an important differentiator between the top performers and others, as we mentioned earlier—so a focus on

Exhibit 5

According to survey respondents, it's harder to attract, reskill, and integrate technology-savvy executives than frontline technical talent.

Organizations' effectiveness at talent-management actions for digital tech roles, past 2 years, % of respondents¹



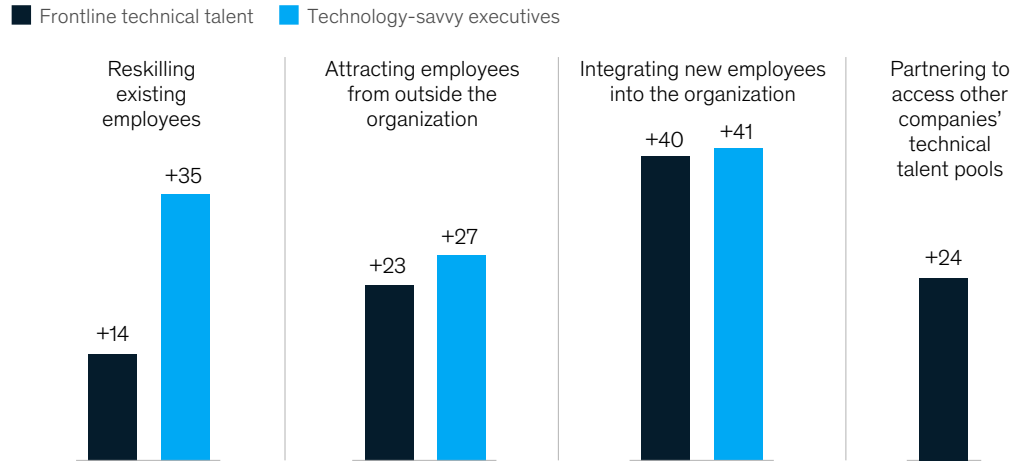
¹ Respondents who answered "neutral," "somewhat effective," "very ineffective," or "don't know" not shown. Respondents were asked to rate their organizations' effectiveness only for actions that they reported organizations were using to source talent for digital and technology roles. For "reskilling existing employees," n = 1,250; for "attracting employees from outside organization," n = 1,233; and for "integrating new employees into organization," n = 585. Source: McKinsey Global Survey on digital investments and transformations, January 25–February 4, 2022, of 1,331 business leaders

¹⁰ "The new digital edge: Rethinking strategy for the postpandemic era," McKinsey, May 26, 2021.

Exhibit 6

Top economic performers are better than their peers at talent management for digital and technology roles, especially for technology-savvy executives.

Organizations' effectiveness at talent-management actions for digital tech roles, past 2 years, % difference of top economic performers over all other respondents¹



¹Includes "very effective" or "somewhat effective" responses; respondents who answered "neutral," "somewhat effective," "very ineffective," or "don't know" not shown. Respondents were asked to rate effectiveness only for actions that their organizations were using to source digital and technology talent. "Top economic performers" defined as those with respondents who reported increases of $\geq 15\%$ in their organizations' revenue and EBIT over past 3 years. Source: McKinsey Global Survey on digital investments and transformations, January 25–February 4, 2022, of 1,331 business leaders

finding and retaining talented product managers will be essential for all companies.

As organizations continue to navigate an era of massive uncertainty and disruption, digital tech is an increasingly critical differentiator of both strategy and performance. The actions of today's best-performing companies reflect

that fact. For all other companies, three lessons emerge: use digital tech to achieve strategic differentiation on customer engagement and innovation; build proprietary assets, such as software, data, and AI, and combine them with a scalable, cloud-based architecture to create a strategic advantage; and focus the quest for digital talent on C-suite and other executives, given the talent integration challenges that many companies continue to face.

The contributors to the development and analysis of this survey include **Laura LaBerge**, a director of capabilities for digital strategy in McKinsey's Stamford, Connecticut, office; **Kate Smaje**, a senior partner in the London office; and **Rodney Zimmel**, a senior partner in the New York office.

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