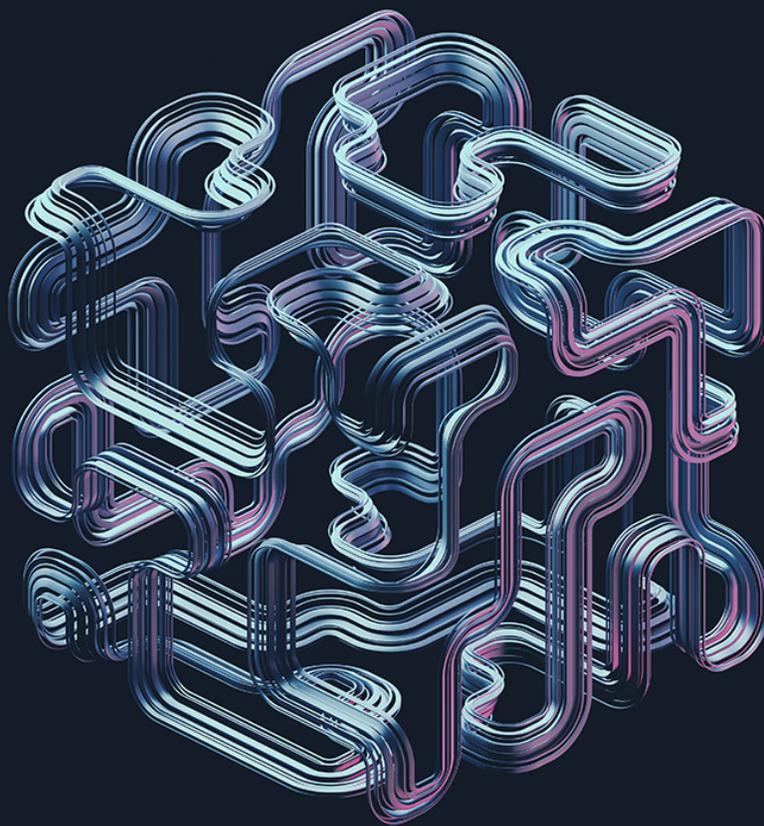


Seven lessons on how technology transformations can deliver value

Our annual IT strategy survey shows how technology investments are proving their worth, especially at companies making more tech-based changes and bridging more of the technology-business divide.



In the past year, the COVID-19 crisis has made clear the business imperative of making technology-driven changes, which are more ubiquitous now than ever.¹ Indeed, our latest McKinsey Global Survey on technology and the business suggests that even in the crisis's earlier days,² respondents were reporting progress on their integration of technology and business—and that these efforts were creating tangible business value across four measures, including new revenue streams and lower costs. The results also suggest that on average, some transformation activities result in more impact than others (namely, those related to talent and capabilities). And according to the data, the companies with top-performing IT organizations³ have differentiated themselves from others in their efforts to create value, adopt new technologies, and bring technology and business closer together.

More specifically, the results point to seven key lessons about technology transformations.⁴

Lesson #1: Technology investments are creating significant business value

In the latest survey, companies' tech-transformation activities appear to be paying off. The survey asked about ten different types of transformation initiatives (for more information on the ten plays in our "tech forward" approach,⁵ see sidebar, "A tech-forward transformation").⁶ According to respondents, more than three-quarters of the initiatives their companies pursued have yielded some or significant cost reductions and improvements to employee experience. What's more, *more than two-thirds of respondents say these change efforts increased*

revenue from existing streams, and more than half cite the creation of new revenue streams: for example, a new product line or new business (Exhibit 1).

The results also suggest that these investments aren't one-off attempts to catch up, with nearly all respondents reporting plans to pursue at least one transformation play in the next one to two years.

Lesson #2: People-focused plays result in the most value

With regard to impact, the results suggest that not all types of transformations are created equal. Across the ten transformation initiatives, respondents say that changes to their companies' people and talent strategies are among the highest-value moves to make (Exhibit 2). At companies that have transformed their approaches to technology talent—that is, changing practices to attract, retain, and upskill talent with digital and engineering skills—respondents report the greatest impact on all four measures of business impact.

Meanwhile, those that pursued changes to their sourcing strategies report a significant impact on three of the four measures: realizing new revenue streams, reducing costs, and improving employee experience. And according to the results, scaling up data analytics is a critical enabler of new revenue and increases to existing revenue streams. By the same token, respondents whose companies saw no or negative value across these measures say they were least likely to pursue talent transformations or the scaling of their data and analytics capabilities.

¹ "How COVID-19 has pushed companies over the technology tipping point—and transformed business forever," October 5, 2020, McKinsey.com.

² The online survey was in the field from April 14 to April 30, 2020, and garnered responses from 487 participants. Of these, 275 have a technology focus, and the remaining 212 are C-level executives representing other functions. The participants represent the full range of regions, industries, company sizes, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

³ We define "top-performing IT organizations" as those that, according to respondents, had an average effectiveness score in the top 25 percent of the survey sample, based on ratings of 15 key IT activities that were tested in the survey.

⁴ We define "technology transformations" as large-scale change efforts—which are more comprehensive than short-term improvement programs—to modernize the technology function.

⁵ Anusha Dhasarathy, Isha Gill, Naufal Khan, Sriram Sekar, and Steve Van Kuiken, "How to become 'tech forward': A technology-transformation approach that works," November 2, 2020, McKinsey.com.

⁶ The ten initiatives the survey asked about were changing IT's delivery model (for example, lean IT, agile at scale); digitizing of end-user experience (that is, digitization of end-to-end business processes or end-user/customer journeys across the organization); enhancing IT architecture (for example, using a flexible, services-based architecture, modernizing legacy applications); modernizing infrastructure (for example, cloud migration, infrastructure automation); redesigning the IT operating model (for example, establishing a stronger partnership between the business and IT functions, changing processes such as budgeting and IT demand management, organizing around product-focused teams); redesigning the technology organization to support new digital products or services; scaling data and analytics (for example, deploying artificial-intelligence models, building next-generation data platforms); transforming cybersecurity practices (for example, strengthening defenses against cyberthreats and data-privacy threats, proactively running cyberthreat drills); transforming talent strategy (for example, changing practices to attract, retain, or upskill talent with digital and engineering skills); and transforming vendor management (for example, revamping sourcing strategy, consolidating suppliers, entering new types of strategic partnerships).

A tech-forward transformation

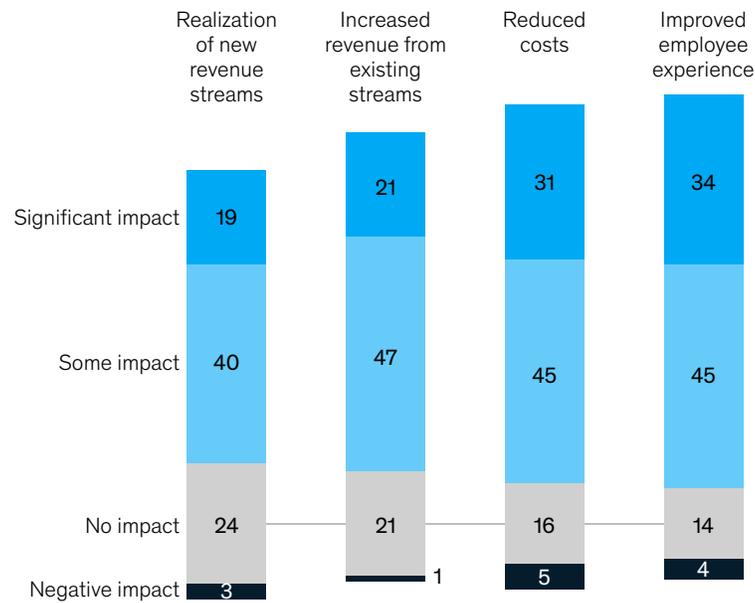
Through detailed conversations with nearly 700 chief information officers at some of the world's largest companies, as well as through our own experience helping businesses execute complex technology transformations, we've synthesized our findings into a "tech forward" model of guidelines and best practices. This model includes the following ten "plays," or domains of activity:

1. *Tech-forward business strategy* (new tech-enabled business models or customer-facing products)
2. *Integrated business and technology management* (no silos, and a product/platform orientation with strategic spend allocation)
3. *Steward of digital user experience* (design thinking, user centricity, and seamless integration with analog technologies)
4. *Agile@scale* software delivery
5. *Next-generation infrastructure services* (cloud; end-to-end automation/no operations, or NoOps; platform as a service)
6. *Engineering excellence* with top talent, both internal and external (do more with less)
7. *Flexible technology partnerships* (capability focused, outcome based)
8. *Flexible, business-backed architecture* rehaul delivered iteratively (open architecture, microservices, application programming interfaces)
9. *Data ubiquity and advanced-analytics enablement*
10. *Defenses that preempt evolving threats* (cyber, data privacy)

Exhibit 1

Most respondents report some or significant impact from their companies' technology transformations.

Impact from technology transformations over the past 2 years, % of respondents,¹ n = 487



¹Figures do not sum to 100%, because respondents who answered "don't know" are not shown.