# Culture for a digital age

By Julie Goran, Laura LaBerge, and Ramesh Srinivasan

20-25 minutes

Risk aversion, weak customer focus, and siloed mind-sets have long bedeviled organizations. In a digital world, solving these cultural problems is no longer optional.

**Shortcomings in organizational culture** are one of the main barriers to company success in the digital age. That is a central finding from McKinsey’s recent survey of global executives (Exhibit 1), which highlighted three digital-culture deficiencies: functional and departmental silos, a fear of taking risks, and difficulty forming and acting on a single view of the customer.

Exhibit 1

Each obstacle is a long-standing difficulty that has become more costly in the digital age. [When risk aversion holds sway](https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/overcoming-a-bias-against-risk), underinvestment in strategic opportunities and sluggish responses to quick-changing customer needs and market dynamics can be the result. When a unified understanding of customers is lacking, companies struggle to mobilize employees around integrated touchpoints, journeys, and consistent experiences, while often failing to discern where to best place their bets as digital broadens customer choice and the actions companies can take in response. And when silos characterize the organization, responses to rapidly evolving customer needs are often too narrow, with key signals missed or acted upon too slowly, simply because they were seen by the wrong part of the company.

Can fixes to culture be made directly? Or does cultural change emerge as a matter of course as executives work to update strategy or improve processes?1 In our experience, executives who wait for organizational cultures to change organically will move too slowly as digital penetration grows, [blurs the boundaries between sectors](https://www.mckinsey.com/business-functions/mckinsey-analytics/our-insights/competing-in-a-world-of-sectors-without-borders), and boosts competitive intensity. Our research, which shows that cultural obstacles correlate clearly with negative economic performance (Exhibit 2), supports this view. So do the experiences of leading players such as BBVA, GE, and Nordstrom, which have shown what it looks like when companies support their digital strategies and investments with deliberate efforts to make their cultures more responsive to customers, more willing to take risks, and better connected across functions.

Exhibit 2

Executives must be proactive in shaping and measuring culture, approaching it with the same rigor and discipline with which they tackle operational transformations. This includes changing structural and tactical elements in an organization that run counter to the culture change they are trying to achieve. The critical cultural intervention points identified by respondents to our 2016 digital survey—risk aversion, customer focus, and silos—are a valuable road map for leaders seeking to persevere in reshaping their organization’s culture. The remainder of this article discusses each of these challenges in turn, spelling out a focused set of reinforcing practices to jump-start change.

## Calculated risks

Too often, management writers talk about risk in broad-brush terms, suggesting that if executives simply encourage experimentation and don’t punish failure, everything will take care of itself. But risk and failure profoundly challenge us as human beings. As Ed Catmull of Pixar said in a 2016 [McKinsey Quarterly interview](https://www.mckinsey.com/business-functions/organization/our-insights/staying-one-step-ahead-at-pixar-an-interview-with-ed-catmull), “One of the things about failure is that it’s asymmetrical with respect to time. When you look back and see failure, you say, ‘It made me what I am!’ But looking forward, you think, ‘I don’t know what is going to happen and I don’t want to fail.’ The difficulty is that when you’re running an experiment, it’s forward looking. We have to try extra hard to make it safe to fail.”

The balancing act Catmull described applies to companies, perhaps even more than to individuals. Capital markets have typically been averse to investments that are hard to understand, that underperform, or that take a long time to reach fruition. And the digital era has complicated matters: On the one hand, willingness to experiment, adapt, and to invest in new, potentially risky areas has become critically important. On the other, taking risks has become more frightening because transparency is greater, competitive advantage is less durable, and the cost of failure is high, given [the prevalence of winner-take-all dynamics](https://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/the-case-for-digital-reinvention).

Leaders hoping to strike the right balance have two critical priorities that are mutually reinforcing at a time when fast-follower strategies have become less safe. One is to embed a mind-set of risk taking and innovation through all ranks of the enterprise. The second is for executives themselves to act boldly once they have decided on a specific digital play—which may well require changing mind-sets about risk, and inspiring key executives and boards to think more like venture capitalists.

### An appetite for risk

Building a culture where people feel comfortable trying things that might fail starts with senior leaders’ attitudes and role modeling. They must break the status quo of hierarchical decision making, overcome a focus on optimizing rather than innovating, and celebrate learning from failure. It helps considerably when executives make it clear through actions that they trust the front lines to make meaningful decisions. [ING](https://www.mckinsey.com/industries/financial-services/our-insights/ings-agile-transformation) and several other companies have tackled this imperative head-on, providing agile coaches to help management learn how to get out of the way after setting overall direction for objectives, budgets, and timing.

However, delegating authority only works if the employees have the skills, mind-sets, and information access to make good on it. Outside hires from start-ups or established digital natives can help inject disruptive thinking that is a source of innovative energy and empowerment. Starbucks, for example, has launched a digital-ventures team, hiring vice presidents from Google, Microsoft, and Razorfish to help drive outside thinking.

Also empowering for frontline workers (and risk dampening for organizations) is information itself. For example, equipping call-center employees with real-time analysis on account profiles, or data on usage and profitability, helps them take small-scale risks as they modify offers and adjust targeting in real time. In the retail and hospitality industries, companies are giving frontline employees both the information (such as segment and purchase history) and the decision authority they need to resolve customer issues on the spot, without having to escalate to management. Such information helps connect the front line to the company’s strategic vision, which provides a compass for decision making on things such as what sort of discount or incentive to offer in resolving a conflict or what “next product to buy” to tee up. Benefits include improvements in the customer experiences (due to faster resolution) and greater consistency across the business in spotting and resolving problems. This lowers cost at the same time it improves customer satisfaction. In addition, frontline risk taking enables more rapid innovation by speeding up iterations and decision making to support nimbler, test-and-learn approaches. These same dynamics prevail in manufacturing, with new algorithms enabling predictive maintenance that no longer requires sign-off from higher-level managers.

Regardless of industry, the critical question for executives concerned with their organization’s risk appetite is whether they are trusting their employees, at all levels, to make big enough bets without subjecting them to red tape. Many CFOs have decided to shift all but the largest investment decisions into the business units to speed up the process. The CFO at one global 500 consumer-goods company now signs off only on expenditures above $250,000. Until recently, any spend decision over $1,000 required the CFO’s approval.

### Making bold bets

At the same time they are letting go of some decisions, senior leaders also are responsible for driving bold, decisive actions that enable the business to pivot rapidly, sometimes at very large scale. Such moves require risk taking, including aggressive goal setting and nimble resource reallocation.

**A culture of digital aspirations.** Goals should reflect the pace of disruption in a company’s industry. The New York Times set the aspiration to double its digital revenues within five years, enabled in part by the launch of T Brand Studio as a new business model. In the face of Amazon, Nordstrom committed more than $1.4 billion in technology capital investments to enable rich cross-channel experiences. The Irish bank AIB decided customers should be able to open an account in under ten minutes (90 percent faster than the norm prevailing at the time). AIB invested to achieve this goal and saw a 25 percent lift in accounts opened, along with a 20 percent drop in costs. In many industries facing digital disruption, this is the pace and scale at which executives need to be willing to play.

**Embracing resource reallocation.** Nimble resource reallocation is typically needed to back up such goals. In many incumbents, though, M&A and capital-expenditure decisions are too slow, with too many roadblocks in the way. They need to be retooled to take on more of a venture-capitalist approach to rapid sizing, testing, investing, and disinvesting. The top teams at a large global financial-services player and an IT-services company have been reevaluating all of their businesses with a five- to ten-year time horizon, determining which ones they will need to exit, where they need to invest, and where they can stay the course. Such moves tax the risk capacity of executives; but when the moves are made, they also shake things up and move the needle on a company’s risk culture.

The financial markets are double-edged swords when it comes to bold moves. While they remain preoccupied with short-term earnings, they are also cognizant of cautionary tales such as Blockbuster’s 2010 bankruptcy, just three years after the launch of Netflix’s streaming-video business. Companies like GE have nonetheless plunged ahead with long-term, digitally oriented strategies. In aggressively shedding some of its traditional business units, investing significantly to build out its Predix platform, and launching GE Digital, its first new business unit in 75 years, with more than $1 billion invested in 2016, GE’s top team has embraced disciplined risk taking while building for the future.

## Customers, customers, customers

Although companies have long declared their intention to get close to their customers, the digital age is forcing them to actually do it, as well as providing them with better means to do so. Accustomed to best-in-class user experiences both on- and off-line with companies such as Amazon and Apple, customers increasingly expect companies to respond swiftly to inquiries, to customize products and services seamlessly, and to provide easy access to the information customers need, when they need it.

A customer-centric organizational culture, in other words, is more than merely a good thing—it’s becoming a matter of survival. The good news is that getting closer to your customers can help reduce the risk of experimentation (as customers help cocreate products through open innovation) and support fast-paced change. Rather than having to guess what’s working in a given product or service before launching it—and then waiting to see if your guess is right after the launch takes place—companies can now make adjustments nearly real-time by developing product and service features with direct input from end users. This is already taking place in products from Legos to aircraft engines. The process not only helps derisk product development, it tightens the relationship between companies and their customers, often providing valuable proprietary data and insights about how customers think about and use the products or services being created.

### Data and tools

Underlying the new customer-centricity are diverse tools and data. Connecting the right data to the right decisions can help build a common understanding of customer needs into an organizational culture, fostering a virtuous cycle that reinforces customer-centricity. Amazon’s ability to use customers’ previous purchases to offer them additional items in which they might be interested is a significant element in its success. The virtuous circle they’ve created includes customer reviews (to reassure and reinforce other shoppers), along with the algorithms that share “what customers who looked at this item also bought.” Of course, Amazon has also invested heavily in automated warehouses and a sophisticated distribution model. But even those were tied to the customer desire to receive merchandise faster.

### A unifying force

At its best, customer-centricity extends far beyond marketing and product design to become a unifying cultural element that drives all core decisions across all areas of the business. That includes operations, where in many organizations it’s often the furthest from view, and strategy, which must be regularly refreshed if it is to serve as a reliable guide in today’s rapidly changing environment. Customer-centric cultures anticipate emerging patterns in the behavior of customers and tailor relevant interactions with them by dynamically integrating structured data, such as demographics and purchase history, with unstructured data, such as social media and voice analytics.

The insurance company Progressive illustrates the unifying role played by strong customer focus. Progressive’s ability to persuade customers to install the company’s Snapshot device to monitor driving behavior is revolutionizing the insurance space, and not just as a marketing tool. Snapshot helps attract the good drivers who are the most profitable customers, since those individuals are the ones most likely to be attracted by the offer of better discounts based on driving behavior. It also gives the company’s underwriters actual data in place of models and guesswork. This new technology is one that Progressive can monetize into a business unit to serve other insurers as well.

## Busting silos

Some observers might consider organizational silos—so named for parallel parts of the org chart that don’t intersect—a structural issue rather than a cultural one. But silos are more than just lines and boxes. The narrow, parochial mentality of workers who hesitate to share information or collaborate across functions and departments can be corrosive to organizational culture.

Silos are a perennial problem that have become more costly because, in the words of Cognizant CEO Francisco D’Souza, “the interdisciplinary requirement of digital continues to grow. The possibilities created by combining data science, design, and human science underscore the importance both of working cross-functionally and of driving customer-centricity into the everyday operations of the business. Many organizations have yet to unlock that potential.”2 The executives we surveyed appeared to agree, ranking siloed thinking and behavior number one among obstacles to a healthy digital culture.

How can you tell if your own organization is too siloed? Discussions with CEOs who have led old-line companies through successful digital transformations indicate two primary symptoms: inadequate information, and insufficient accountability or coordination on enterprise-wide initiatives.

### Getting informed

Digital information breakdowns echo the familiar story of the blind men and the elephant. When employees lack insight into the broader context in which a business competes, they are less likely to recognize the threat of disruption or digital opportunity when they see it and to know when the rest of the organization should be alerted. They can only interpret what they encounter through the lens of their own narrow area of endeavor.

The corollary to this is that every part of the organization reaches different conclusions about their digital priorities, based on incomplete or simply different information. This contributes to breaks in strategic and operating consistency that consumers are fast to spot. There isn’t the luxury of time in today’s digital world for each division to discover the same insight; a digital attacker or more agile incumbent is likely to swoop in before the siloed organization even knows it should be mounting a response. So the first imperative for companies looking to break out of a siloed mentality is to inspire within employees a common sense of the overall direction and purpose of the company. Data and thoughtful management rotation often play a role.

**Data-driven transparency.** Data can help solve the blind-men-and-the-elephant problem. A social-services company, for instance, created a customer-engagement group to better understand how customers interact with the company’s products and brands across silos—and where customers were running into difficulty. Among other things, this required close examination of how the company collected, analyzed, and distributed data across silos. The team discovered, for example, that some customers were cancelling their memberships because of the deluge of marketing outreaches they were receiving from the company. To address this, the team combined customer databases and propensity models across silos to create visibility and centralized access rights with regard to who could reach out to members and when. Among other achievements, this team:

* created segment-specific trainings that offered an integrated view of each segment’s suite of needs and offerings that would meet them
* drew on information from different parts of the organization to give a more developed picture on engagement, retention, and the total number of touches associated with various segments and customers
* showed the net effect of the entire organization’s activities through the customer’s eyes
* embedded this information into key processes to ensure information was accessible in a cross-disciplinary way—breaking siloed viewpoints and narrow understandings of the overall business model

**Management rotation.** Another way to achieve better alignment on the company’s direction is to rotate executives between siloed functions and business units. At the luxury retailer Nordstrom, for example, two key executives exchanged roles in 2014: Erik Nordstrom, formerly president of the company’s brick-and-mortar stores, became president of Nordstrom Direct, the company’s online store, while Jamie Nordstrom, formerly president of Nordstrom Direct, became president of the brick-and-mortar stores. This type of rotation can be done at different levels in an organization and helps create a more consistent understanding between different business units regarding the company’s aspirations and capabilities, as well as helping create informal networks as employees build relationships in different departments.

### Instilling accountability

The second distinctive symptom of a siloed culture is the tendency for employees to believe a given problem or issue is someone else’s responsibility, not their own. Companies can counter this by institutionalizing mechanisms to help support cross-functional collaboration through flexibly deployed teams. That was the case at ING, which, because it identifies more as a technology company than a financial-services company, has turned to tech firms for inspiration, not banks. Spotify, in particular, has provided a much-talked-about model of multidisciplinary teams, or squads, made up of a mix of employees from diverse functions, including marketers, engineers, product developers, and commercial specialists. All are united by a shared view of the customer and a common definition of success. These squads roll up into bigger groups called tribes, which focus on end-to-end business outcomes, forcing a broader picture on all team members. The team members are also held mutually accountable for the outcome, eliminating the “not my job” mind-set that so many other organizations find themselves trapped in. While this model works best in IT functions, it is slowly making its way into other areas of the business. Key elements of the model (such as end-to-end outcome ownership) are also being mapped into more traditional teams to try to bring at least pieces of this mind-set into more traditional companies.

Start by finding mechanisms, whether digital, structural, or process, that help build a shared understanding of business priorities and why they matter. Change happens fast and from unpredictable places, and the more context you give your employees, the better they will be able to make the right decisions when it does. To achieve this, organizations must remove the barriers that keep people from collaborating, and build new mechanisms for cutting through (or eliminating altogether) the red tape and bureaucracy that many incumbents have built up over time.

Cultural changes within corporate institutions will always be slower and more complex than the technological changes that necessitate them. That makes it even more critical for executives to take a proactive stance on culture. Leaders won’t achieve the speed and agility they need unless they build organizational cultures that perform well across functions and business units, embrace risk, and focus obsessively on customers.

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[mckinsey.com](https://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/how-to-start-building-your-next-generation-operating-model?cid=eml-app)

# How to start building your next-generation operating model

By Joao Dias, David Hamilton, Christopher Paquette, and Rohit Sood

19-24 minutes

Each company’s path to a new operating model is unique. But successful transformations are all constructed with the same set of building blocks.

**A North American bank** took less than two years to shift 30 percent of its in-branch customer traffic to digital channels and dramatically reduce its brick-and-mortar footprint. A European cruise line redesigned and relaunched five core products in nine months to increase digital conversions by three to five times and sales by 150 percent.

These companies have been able to transform because they have developed next-generation operating models that provide the speed, precision, and flexibility to quickly unlock new sources of value and radically reduce costs. The operating model of the future combines digital technologies and process-improvement capabilities in an integrated, sequenced way to drastically improve customer journeys and internal processes.

Lean management has already played a significant role in putting in place processes, capabilities, and tools to improve how businesses operate. But the digital age has increased both the opportunities for businesses who know how to react and the difficulty of getting it right. For one thing, tasks performed by humans are more complex, whether it’s accessing information in multiple formats from multiple sources or responding to changing market and customer dynamics at ever-increasing speeds. And as an increasing number of tasks become automated or are taken over by cognitive-intelligence capabilities, companies will need to take many of the lessons learned from lean management and update them. Like a sprinter who needs all her muscles to be finely tuned and working in concert to reach top speeds, fast-moving institutions must have a system to continually synchronize their strategies, activities, performance, and health.

But how? Many institutions understand the need to change how they work and have embarked on numerous initiatives, yet few have been able to get beyond isolated success cases or marginal benefits.

We have found that companies that successfully build next-generation operating models do two things well. They focus on putting in place the building blocks that drive change across the organization, and they select a transformation path that suits their situation. These practices don’t apply only to companies that have yet to start their digital transformation. In our experience, even companies that are well along their transformation journey can pivot to putting in place a next-generation model that delivers massive value while significantly reducing costs.

## Building blocks of the next-generation operating model

Whatever the path companies choose to develop their next-generation operating model (a subject we return to later), we have found there is a set of building blocks of change that successful leaders put in place. Think of them as the mechanics of change—elements needed to underpin the development of the operating model. Given the dynamic nature of digitization and the fast pace of change, it’s important not to think about perfecting the implementation of each building block before the operating model can function. The process is highly iterative, with elements of each building block tested and adapted to grow along with the model through a constant evolutionary cycle.

### Building Block #1: Autonomous and cross-functional teams anchored in customer journeys, products, and services

Successful companies constantly rethink how to bring together the right combination of skills to build products and serve customers. That means reconfiguring organizational boundaries and revisiting the nature of teams themselves, such as creating more fluid structures in which day-to-day work is organized into smaller teams that often cut across business lines and market segments. This approach includes empowering teams to own products, services, or journeys, as well as to run experiments. These organizations are also becoming nimble in how they build skills across their teams by making “anchor hires” for key roles, setting up rotational and “train the trainer” programs, and committing to ongoing (often weekly) capability building and training for key roles.

Many insurers, for example, are dismantling traditional claims and underwriting units and reconstructing them to embed subject-matter experts such as lawyers and nurses into service groups. In the best companies, these teams also work side by side every day with technologists to design the tools and technology to improve efficiency and effectiveness.

Iteration is crucial to making this approach work. Leaders test various team configurations and allow flexibility in response to changing customer needs. One credit-card company, for example, shifted its operating model in IT from alignment around systems to alignment with value streams within the business. Cross-functional teams were pulled together to work on priority journeys and initiatives to deliver on the value stream. These changes dramatically simplified the operating model, lowered direct leadership expenses, and contributed to a 200 percent increase in software-development productivity within three months.

### Building Block #2: Flexible and modular architecture, infrastructure, and software delivery

Technology is a core element of any next-generation operating model, and it needs to support a much faster and more flexible deployment of products and services. However, companies often have trouble understanding how to implement these new technologies alongside legacy systems or are hampered by outdated systems that move far too slowly.

To address these issues, leaders are building modular architecture that supports flexible and reusable technologies. Business-process management (BPM) tools and externally facing channels, for example, can be shared across many if not all customer journeys. Leading technology teams collaborate with business leaders to assess which systems need to move faster. This understanding helps institutions decide how to architect their technology—for example, by identifying which systems should be migrated to the cloud to speed up builds and reduce maintenance.

This approach both accelerates development and prioritizes the use of common components, which in turn leads to development efficiency and consistency. Another important reason for building more flexible architecture is that it enables businesses to partner with an external ecosystem of suppliers and partners.

Similarly, leaders are investing heavily in DevOps and combining people, process, and technology changes to automate software testing, security, and delivery processes as well as infrastructure changes.

### Building Block #3: A management system that cascades clear strategies and goals through the organization, with tight feedback loops

The best management systems for next-generation operating models are based on principles, tools, and associated behaviors that drive a culture of continuous improvement focused on customer needs. Leading companies embed performance management into the DNA of an organization from top to bottom, and translate top-line goals and priorities into specific metrics and KPIs for employees at all levels. They make visible the skills and processes needed for employees to be successful, put clear criteria in place, and promote the sharing of best practices.

The best institutions are evolving their management systems to create feedback mechanisms within and between the front line, back-office operations, and the product teams that deliver new assets. They are also using their management systems to harvest the surfeit of data generated by day-to-day activities to create user-friendly dashboards and reports, some of them in real time.

Performance management is becoming much more real time, with metrics and goals used daily and weekly to guide decision making. These metrics are supported by joint incentives—not just for individuals—that are tailored to each level of the organization and reinforce behaviors to support customers regardless of organizational boundaries.

One North American insurer struggled to make the predictive analytics models developed by central teams relevant to its front-line claims adjusters, who therefore failed to adopt the new capability. Knowing it was leaving significant value on the table, the company established daily feedback sessions between the central development team and the claims adjusters and embedded analytics specialists into customer-service teams to develop better insights into customer issues. The teams created shared goals based on customer value that were consistent with the organization’s strategy and the daily work of adjusters. Under this new management system, the analytics specialists and claims adjusters shortened cycle times and dramatically improved the effectiveness of assignment. This freed up time for leaders to coach, problem solve, and iterate on the next opportunities for the teams to pursue.

### Building Block #4: Agile, customer-centric culture demonstrated at all levels and role modeled from the top

Successful companies prioritize speed and execution over perfection. That requires agility in delivering products to customers and quickly learning from them, as well as willingness to take appropriate risks. The best organizations have already made agility a cornerstone of how they work beyond IT. One credit-card company brought together law and compliance personnel to sit in with marketing teams to intervene early in processes and have daily conversations to identify and resolve issues. Law and compliance functions have also begun to adopt agile methodologies to change their own work. As functions and teams collaborate, they are on track to reduce effective time to market by 90 percent for some core processes while also reducing operational risk.

Critical to success is leading the change from the top and building a new way of working across organizational boundaries. Senior leaders support this transformation as vocal champions, demonstrating agility through their own choices. They reinforce and promote rapid iteration and share success stories. Importantly, they hold themselves accountable for delivering on value quickly, and establish transparency and rigor in their operations. Many manage the change aggressively, often changing performance incentives, mothballing outdated processes, assembling communication campaigns to reinforce culture, and writing informal blogs. At one asset-management company, the top team jettisoned its legacy budgeting process and asked leaders to be aggressive about capturing more value. They established an ongoing process for redistributing funding to the highest-value experiments that were working.

## Defining the path for your organization

There is no one way to develop a next-generation operating model. It depends on a company’s existing capabilities, desired speed of transformation, level of executive commitment, and economic pressure. We have seen four paths that leading companies take to drive their transformation, though organizations often move to a different path as their capabilities mature. These paths offer a guide for the first 12 months of a transformation journey.

**An innovation outpost** is a dedicated unit set up to be entirely separate from the historical culture, decision-making bureaucracy, and technical infrastructure of the main business. It creates inspiring products that illuminate the digital art of the possible (sometimes with questionable economic impact), and hatches new business models in informal settings such as over foosball tables. This path has traditionally been popular as a first move, but is now less common.

One retailer with an ineffective online business chose to open such an outpost. It introduced next-gen analytics, focused on customer experience rather than technology, and drove the mobile interface. Staying largely separate from the main business, the outpost created a buzz around innovation, attracted better talent, and repatriated many of its creations into the broader organization.

This path works well when there is limited alignment among executives on the importance and value of transformation, a need to move very quickly in response to market pressures, and significant legacy culture challenges to overcome. However, it is less effective as the “tip of the spear” for changing the culture or building sustainable capabilities, and often yields a low return on investment.

**A fenced-off digital factory** is a group of groundbreakers that works in partnership with businesses and functions (such as IT infrastructure and security, legal, compliance, and product development) while enjoying a high degree of autonomy. It typically houses specialized capability groups in technologies such as robotics or analytics, and deploys them to support the development of specific journeys in concert with business and functional partners. It both models a new way of working and integrates developed capabilities into the main business. As such, it focuses internally on integrating with and shifting the culture of the organization.

This is the most common starting point, as it balances the need for incubation with that of broader transformation. One European bank built a digital factory in a building on a campus. Each of the lower floors is dedicated to a separate journey, while the top floor is dedicated to creating reusable components and utilities—such as customer identification and verification or esignature—that the other journeys can deploy in a modular way.

Business and functional colleagues come together to work with teams in the factory. Each of these teams develops products and services, moves them quickly from prototype to deployment, and then transfers them into the main business. As part of the management system, the team continues to monitor and iterate the product or service based on economic performance and customer feedback.

This path works well when there is a broad-based belief in and commitment to transformation, and a need to incubate a critical mass in internal capabilities. Many organizations have used this approach to attract digital talent, combat large-project inertia within IT groups, and speed transformation. Culture change is slower within the rest of the organization, but it happens over time as business and functional specialists partner with the factory for each journey. It can, however, also create a “have and have not” split within the business if not managed appropriately, and can require significant initial C-suite support and funding. (For more on the digital factory, see “Scaling a transformation culture through a digital factory,” forthcoming on McKinsey.com.)

**A business-unit accelerator** is a scaled-down digital factory that incubates a transformation inside a business unit to tackle local customer journeys and business functions. The business unit builds its own skills, such as process-redesign and robotics capabilities, and has control over specific capabilities and investments. This means it doesn’t need central funding or organization-wide agreement on a host of issues to get going.

One North American bank shifted to a business-unit accelerator model after the first few years of its transformation. It found that this move gave it more control and a closer connection to business strategy and the customer—benefits that outweighed centralized scale and capability building. The bank invested heavily in talent and tools with the aim of building a reputation among customers as a digital business that happens to produce banking products and experiences.

This path works well for organizations with large business units that operate independently. It’s also a good starting point when one business unit is particularly far ahead in its thinking and belief, or where digital services have disproportionate value-creation potential. However, companies that choose this model must mitigate several risks. When business units choose their own digital tools and processes, for instance, complexity and costs increase for IT teams managing maintenance, licensing, and enterprise architecture. This model can also make it harder to build and share capabilities across the organization since the skills developed are specific to the business unit.

**A full-scale evolution** is a comprehensive transformation in which the enterprise reorganizes itself almost entirely around major journeys. This is the natural operating model for many digital natives, as technology, digital services, and product delivery are basically inextricable. Companies focus on specific digital initiatives that deliver on business priorities, deploying specialized talent and cross-functional teams to support each one. The model is highly attuned to the customer, and rapidly develops, tests, and iterates on new products or services. Team members may be managed through a center of excellence or by business-unit leaders. This path is the aspiration for many incumbents, especially those that deliver services rather than physical products.

In one European bank undergoing a full-scale evolution, agile has become the default way for people to work, with colleagues from multiple functions including IT sitting sit side by side. Results are measured by value streams—the sources of the value being generated—and journeys, flowing from the customer need back to the performance of the bank. Prioritization and resourcing take the form of active daily and weekly conversations about the next most important thing to work on. This approach is initially almost like shock treatment, but it offers important benefits, allowing companies to shake up the traditional management system and achieve culture change quickly and at scale. The organization builds agile skills broadly, identifies high and low performers, and pinpoints valuable and missing skills.

This path works well when there is a broad and top-down organizational mandate for change. Given the time it takes to move the needle, there should be no pressing near-term economic imperative. Companies that choose this model need to mitigate several risks, such as ensuring that best practices are shared across the operating model rather than being confined to individual teams. In addition, organizations must share any scarce resources across business functions to drive impact, and ensure coordination with IT as it seeks to keep up with the technical architecture.

## No-regret steps leaders should take

Every organization’s transformation journey will be different. However, a simple set of immediate, no-regret steps can help leaders shape their first set of priority decisions and provide clarity on the way forward. These often include:

* Creating clarity on enterprise strategy and on where digital services can quickly enable sustainable value creation. (For more on this, see “[The next-generation operating model for the digital world](https://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/the-next-generation-operating-model-for-the-digital-world).”)
* Challenging the board to be explicit about the importance of the transformation and its support for investment; or, as a board, making this decision and challenging the executive team for a bold vision.
* Building top-team excitement and belief in change through visits to leading digital natives or incumbents pursuing their own transformation paths.
* Assessing the maturity of the management system using benchmarking against other organizations to identify strengths to build on and risks to mitigate.
* Investing in targeted capability building, especially for the top 50 leaders in the organization. Exploring core concepts such as digitization, agile, design thinking, and advanced analytics can create a shared vocabulary and spur action.
* Making an honest objective assessment of talent and capabilities within the organization, benchmarked against peers and cross-sector leaders. Disruption often comes from outside an industry rather than within.
* Surveying the cross-sector landscape for ideas and inspiration. It’s easier than ever to learn from others, and a rapid inventory of ideas can shed light on potential execution challenges to resolve.
* Assessing the level of change that the organization can realistically absorb in the near and long term given its other priorities.

Most companies recognize the need for a next-generation operating model to drive their business forward in the digital age. But how well they actually develop it makes all the difference between reinventing the business and just trying to do so.