Digital transformation: The three steps to success

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The hardest part of a successful digital transformation is the cultural piece. Like the proverbial journey of a thousand miles, it begins with small steps.

Executives at legacy companies, struggling to meet the challenge of an aggressive digital disruptor, sometimes think they have to overhaul their business from top to bottom. Not so, according to serial digital entrepreneur and McKinsey advisor James Bilefield, who has worked successfully on both sides of the digital-traditional divide. While a digital start-up can disrupt the market, legacy companies shouldn't undervalue their own competitive assets or make the mistake of thinking the disruptors have all the cards. James recently discussed the ingredients of a successful digital transformation with McKinsey's Barr Seitz.

Digital transformation as a Trojan horse

One of the elements that I think is misunderstood about a digital transformation is that it's typically a Trojan horse for a much broader business transformation, a time to review many aspects of a business's operations from top to bottom—the talent, the organizational structure, the operating model, products, services, etcetera. Some of those are hard changes that need to be made, and some are softer, like language or culture.

In my experience, culture is the hardest part of the organization to change. Shifting technology, finding the right talent, finding the right product set and strategy—that's all doable, not easy, but doable. Hardest is the cultural transformation in businesses that have very deep legacy and cultural roots.

The power of words

One of the areas I focus on with clients is around the power of words. The language that's used internally in the organization—around products, around the customer, around opportunity—and how you translate that externally to your customers or clients can have a very powerful impact on how you conduct your business and the outcomes you can deliver.

For example, at a financial-services company, the kind of language that's used internally to talk about the customer experience is often peppered with three-letter acronyms that are just "management speak." I think there's an opportunity to completely change the game and to think differently by focusing the language around what you're actually delivering for your customers and then rethinking the way the business operates along those lines. It can be a very powerful shift in culture and in the way people think about what they do.

Three steps for getting a digital transformation on track

Any change process starts with an awareness that there's an issue in the organization. There are many ways to address those issues, but the "softer" things that signal change, such as altering the language used, are important. Some organizations even change dress codes and the office environment, break down silos between organizations, and make certain senior managers more visible. Leadership starts to be seen more around the office and to be more open to more junior levels of the organization than they may have typically been in the past. There's a more informal, if you like, style of management.

Then you start to move into the ways the company judges itself—the key performance indicators (KPIs) and the measures you use, for individuals and for teams and for the wider organization—to try to drive real change. How high up do those new KPIs need to be on a dashboard that otherwise may have been rather traditional and may not have changed much for a decade or more?

And thirdly, it's the actions you take, whether it's putting a designer on your executive team, like we have at Apple now, or even making a designer your CEO, as Burberry has recently done.

So there are a number of quite significant changes you can make to send a signal through the organization. It's not just about a chief digital officer or a chief data officer or a chief analytics officer. Actually, this digital thing becomes everybody's job, everyone's responsibility. You need to inculcate that change across the organization, and you need to take many small and large steps to do that.

Building a culture of constant change

I think you need to be in a state of constant revolution. You don't make a change and then just sit back and wait for the next five years of business as usual. I think you need to build a new momentum and rhythm in your business that reflects the new reality of the industry in which you are operating.

Many companies already have a strategy of continuous improvement in their businesses and in their operations globally. I think you need to instill, even in that kind of organization, a culture of continuous change and evolution in how things work.

Some changes are gradual and evolve toward an end goal, which becomes clear over time, and you need to make a number of small steps to do that. Sometimes you do this through external actions, such as acquisitions, investments, partnerships, or other external activity or statements. Or sometimes you do this through internal activity, such as the people you promote or the way you talk about the company and its customers and mission. Some people will be taken a little outside their comfort zone, but that's OK, so long as you give them the permission to take small risks and fail quickly if they can.

The board's role in the digital age

The role of the board in a digital business is quite different from the role of the board in a legacy business. One of the challenges I think many legacy companies face today is that their boards are not really ready to challenge them and to support and encourage their digital transformation.

If you think of the average age of most board members around the world—and, frankly, of their backgrounds as well—they are not digitally ready. A recent Russell Reynolds survey suggested, I think, that only 4 percent of global 500 companies truly have a board that's digitally ready, even fewer in Asia–Pacific, and under 25 percent in the United States. So there's still a long, long way to go.

To make a digital transformation happen, you need complete alignment—from the board through the executive team through the whole organization. Without that "air cover" from the board and from shareholders who understand the change that you're taking the organization through, it is very, very hard to do it successfully.

For example, many board meetings are backward looking in their approach. The data they're looking at is often a little old. They're not looking at live data. Many board members are often not active customers of the company's products or services. I think there's a new generation of board director emerging that is much more hands-on, with a more entrepreneurial background. You mix that with some of the more traditional board profiles and you get greater diversity on the board. ☐

James Bilefield is a serial digital entrepreneur and a senior advisor to McKinsey. This interview was conducted by McKinsey Digital and Marketing & Sales Practices' **Barr Seitz.**