Stephanie Woerner:

Hello, and welcome to the audio edition of the MIT CISR Research Briefing Series. I’m Stephanie Woerner, a research scientist with MIT CISR—the MIT Center for Information Systems Research, or M-I-T C-I-S-R. CISR is a research center at the MIT Sloan School of Management that studies digital transformation.

Today I’m excited to share with you the February 2021 research briefing that I co-authored with Peter Weill, “Update on the Four Pathways to Future Ready.”

In 2017 we first observed how almost every big old company was on a digital transformation journey, many without a playbook. We described the goal of business transformation—to become Future Ready—and our research identified four pathways that companies can follow to outperform their industry.

When we asked one CEO why he drove development of a playbook at his company, he explained, “Creating a common transformation language that’s embedded and reinforced consistently by the leaders across the organization was an important first step as a CEO, and ultimately critical to gaining [the] momentum needed during the early and difficult phases of the digital journey we are on.” That was by Nathan Bostock, CEO of Santander UK

Since 2017, we’ve done dozens of workshops with companies that are making big investments in business transformation, and we’ve continued research on the four pathways, including administering surveys to more than 1,500 companies globally. In this briefing we update the research and highlight what we have learned over the last four years.

A future-ready company is ambidextrous, innovating to engage and delight customers while simultaneously reducing costs by means of readily available technologies—for example, cloud computing or APIs, often combined with agile development approaches such as test and learn. Customers get a great experience no matter which of the company’s channels they choose, and the company strives to meet customers’ needs rather than push products.

Additionally, a future-ready company creates modular digitized services to both optimize operations and design and release new offerings. It treats data as a strategic asset—a single source of truth, supported by a set of data monetization capabilities—that is accessible by all employees who need it. The company is ecosystem ready—whether to lead an ecosystem or participate in one—and works with a wide variety of partners via digital services and exposed APIs. And it enables future-ready endeavors by developing and retaining the right talent and facilitating rapid learning throughout the company.

Most importantly, a company’s purpose determines the company’s version of Future Ready and helps guide individuals’ behavior. Shayne Elliott, CEO of ANZ Banking Group, said, “If you’re not doing [digital] aligned with your core purpose, then it’s really sort of a hobby; it’s something you’re doing on the side. … [Digital] has to be core and completely aligned with your objectives.”

What have we learned since our earlier briefing? The performance premiums for getting to a future-ready state are large and rising. In 2017, 23 percent of companies were Future Ready (relative to competitors) and those companies averaged net margin 16 percentage points above their industry average. In 2019, 22 percent of companies were Future Ready, with an average net margin 19.3 percentage points higher than industry average. Getting to a future-ready state is financially rewarding but challenging, and considering that over time we observed the percentage of future-ready companies staying fairly consistent, we propose the bar to achieving Future Ready is rising in step with advancements in practice and technologies. It takes a strong, consistent vision to get there, and even that is not enough. It also requires that the company and its top management team align on both a pathway for the journey and how the company will deal with unavoidable significant, disruptive company-wide changes needed to become Future Ready.

As part of this research we identified four possible pathways to Future Ready. We found that most companies begin the journey by choosing Pathway 1, 2, or 3 and following it to Future Ready. Of the 1,311 companies that responded to our most recent survey, the average percent complete, which had been 33 percent in 2017, was 50 percent in 2019. Fifty percent is an important milestone for benefit realization: we found that companies at above 50 percent complete in their transformation had a 14 percent higher average net margin than those below 50 percent complete.

In our survey, 76 percent of companies chose one primary pathway for their digital transformation. Two percent of companies had not started on a transformation. The other 22 percent were on multiple pathways at once, either by choice (for example, to fulfill the differing needs of distinct business units) or due to lack of strategy. Of those companies on multiple pathways, more than half (12 percent of companies overall) said they were well coordinated on those pathways—sharing data, processes, and/or components across the pathways. These companies had made the most progress, assessing their transformation at 59 percent complete. The companies that were on multiple pathways but not coordinated made the least progress—30 percent complete.

One risk we anticipate in the next few years is that business units or country leaders will start local transformation initiatives due to frustration with slow progress on company-wide transformation. Consequently, the companies will be pursuing multiple pathways at once but not coordinating them—and the financial results will be poor. Choosing multiple pathways might make sense for many multi-business unit companies, but as it requires more coordination, it should be a conscious choice. Otherwise, a company could find itself dealing with conflicting goals, investments, and activities, and making less headway than expected on its transformation.

In understanding how companies successfully get to Future Ready, we identified four significant, disruptive changes common to all of the pathways. We call these changes “explosions” because that’s what they feel like: companies are blowing up the way they used to do things to remove barriers and move faster. The four explosions are:

1. Changing decisions rights: clarifying who has the rights to make which decisions and how decision makers will be held accountable

2. Developing new ways of working: changing the company culture through new ways of working such as agile methodologies, minimum viable products, co-creating with customers, and remote working

3. Creating a platform mindset: identifying the organization’s “crown jewels” and converting them into reusable digital services that connect organizational silos for real-time transactions, fast innovation, and easy partnering

4. Performing organizational surgery: removing organizational complexity, often to achieve better and cheaper multiproduct, multichannel customer experience

Explicitly discussing how to manage the explosions and who will do so helps keep the enterprise focused. Managing these changes was a high priority at CEMEX, which followed Pathway 2 and significantly improved its customer experience with the introduction and success of CEMEX GO. Fernando Gonzalez, CEO of CEME said “Deciding which particular pathway to follow was just the first step in our business transformation journey; the bigger challenge as a CEO was to closely manage the organizational changes required to build a truly digital enterprise. Beyond the technological implications, change management efforts need to be at the top of the CEO’s agenda.”

Companies in our research whose transformation was a higher percent complete were statistically more effective at dealing with each of the four explosions. None of the explosions are easy to navigate, but top performers achieve around 70 percent effectiveness on all four. How do you compare?

In our workshops and presentations, we are often asked which of these explosions should be dealt with first. The results of our analysis of case vignettes and survey data suggests that, no matter which pathway you are on, the first explosion to focus on is decision rights. We hear of many companies starting their transformation with a reorganization—performing organizational surgery. Putting a stake in the ground too early risks making changes that stabilize the wrong parts of the enterprise. While a reorganization is a strong signal to all of your employees, we find in most instances the result of reorganizing first is that subsequent changes could immerse the company in conflict, eventually provoking additional organizational surgery. Instead, we’ve found that clarifying who is responsible for the key decisions on digital, such as how to invest, is critical and the best place to start.

Digital transformation is urgent for most companies. And while digital transformation is doable, achieving a Future Ready state is more challenging. The bar of what Future Ready means is rising as every company improves. It takes a strong, consistent vision to become Future Ready—but even that is not enough. It also requires that the top management team and the company agree on a pathway for the journey and expertly and proactively deal with the organizational explosions.

Thanks for listening to this reading of MIT CISR research. Get free access to more research on our website at cisr.mit.edu.