



Performance and Innovation Are the Rewards of Digital Transformation

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Performance and Innovation Are the Rewards of Digital Transformation

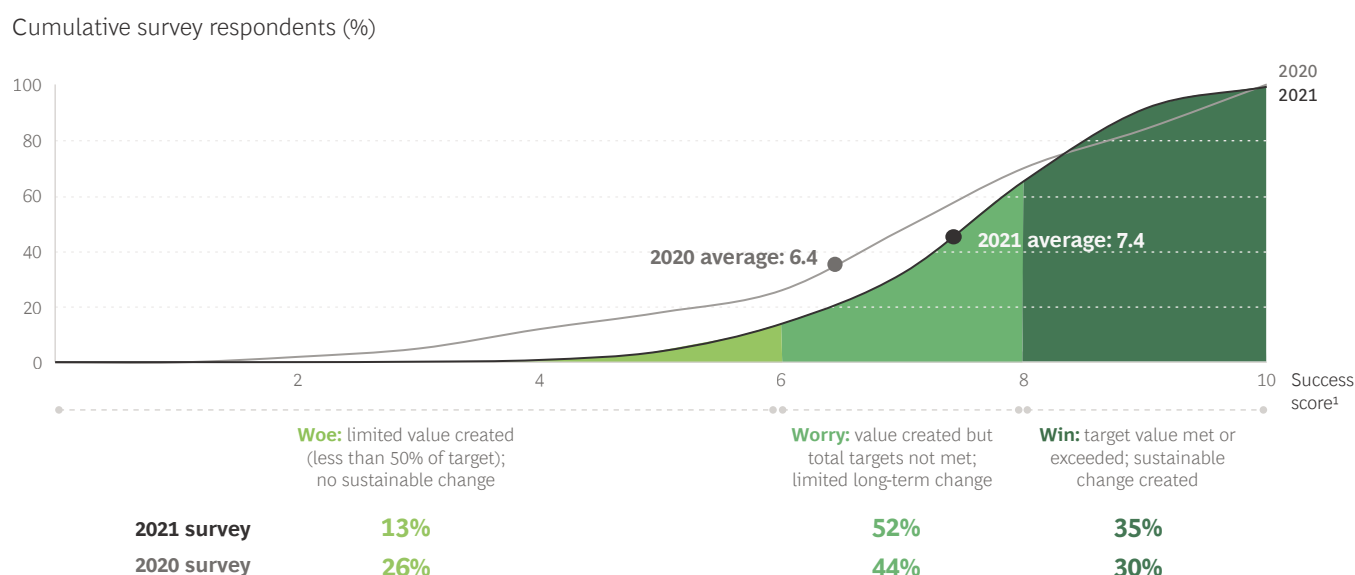
CEOs sense that when digital transformations are implemented successfully, they can deliver big rewards. Now the full extent of the impact can be seen in real-world evidence. Data from our latest research, involving more than 850 companies worldwide, shows that in the near term, successful transformations drive significant EBIT increases—and in the medium term, they make it easier to scale new digital solutions, enabling companies to go beyond digital reengineering to set new agendas for innovation and growth.

Still, only 35% of companies achieve their digital transformation objectives, according to our latest survey, up slightly from 30% in our 2020 study. (See Exhibit 1.) These leaders are scaling successful transformations across business units and geographies and shifting their transformation efforts to goals with broader strategic importance. The other 65% are struggling to mobilize their organizations. They are falling behind in building the full set of capabilities that underpin competitive advantage today: excellent customer experiences, operational productivity, and growth

from innovation. The relevance of the six digital transformation success factors we identified in last year's study are more critical than ever. (See the sidebar, "The Six Success Factors for Digital Transformations.")

For our 2021 survey, we looked at the rewards of success, how leaders are shifting their digital priorities to more ambitious goals, and the persistent gulf in transformation success rates.

Exhibit 1 - Only 35% of Companies Deliver Successful Digital Transformations



Sources: BCG Global Digital Transformation Survey, 2020 and 2021.

¹Success score is calculated from participant's self-ratings on the six success factors for digital transformation: Strategy, Leadership, Talent, Agility, Monitoring, and Tech and Data.

Clear Financial Impact

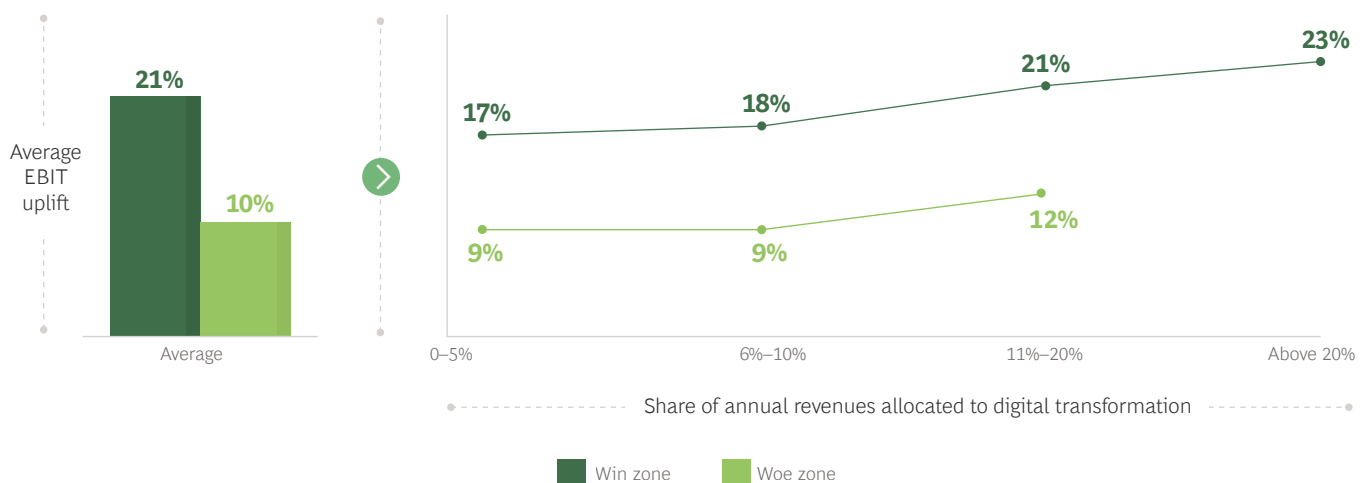
The bottom line on digital transformations is that they generate clear and significant financial impact. In 2020, we identified three transformation success categories: “win” (target value met or exceeded, sustainable change created), “worry” (value created but total targets not met; limited long-term change in capabilities), and “woe” (limited value, less than 50% of target achieved, no sustainable change in capabilities created). (See the sidebar, “Success Rates Have Room for Further Improvement.”)

This year, we asked respondents to quantify the EBIT impact delivered by their transformations to date. Win-zone companies on average reported a 21% EBIT increase in the businesses within the scope of the transformation compared with an average 10% increase for those companies in the woe zone. (See Exhibit 2.) Executives from companies in both the worry and woe zones expressed frustration with their results. “We did drive some incremental outcomes, but honestly we did not demonstrate persistence,” one executive said. “Some leaders were not fully on board, so we declared success prematurely and moved back to business-as-usual without having really built sustainable digital capabilities.”

There appears to be a minimum threshold of investment for a digital transformation to succeed—around 5% of revenues—but above this level, incremental investments only generate a marginal performance improvement. Success is not characterized by the amount spent but rather by comprehensively addressing the six key success factors. The extent of the performance uplift was largely independent of the transformation’s area of focus (be it customer experience, pricing, or manufacturing operations, for example), indicating that companies are doing a good job on one of the key components of an integrated strategy: focusing transformation programs on where they can drive the most value. (See Exhibit 3.)

Exhibit 2 - Win-Zone Companies Generate Higher EBIT Improvement by a Significant Margin, Regardless of Level of Investment

Average EBIT uplift achieved through digital transformation, by share of revenues allocated



Source: BCG Global Digital Transformation Survey, 2021.



The Six Success Factors for Digital Transformations

Our initial research in 2020 involved internal data from BCG's work with 70 leading companies worldwide on their digital transformations and external data offered by 825 senior executives in a detailed survey. The study revealed six success factors that together **flip the odds for transformation success** from 30% to 80%. These factors are:

- **An Integrated Strategy with Clear Transformation Goals.** The strategy describes the why, the what, and the how of a transformation, each of which are tied to specific, quantified business outcomes.
- **Leadership Commitment from CEO Through Middle Management.** The company has high leadership engagement and alignment, including often-overlooked middle-management ownership and accountability.
- **Deploying High-Caliber Talent.** Management identifies and frees up the most capable resources to drive the transformation program.
- **An Agile Governance Mindset That Drives Broader Adoption.** Leaders address roadblocks quickly, adapt to changing contexts, and drive cross-functional, mission-oriented, "fail-fast-learn" behavioral change into the wider organization. They deal with individual challenges without losing sight of the broader goals.
- **Effective Monitoring of Progress Toward Defined Outcomes.** The company establishes clear metrics and targets around processes and outcomes, with sufficient data availability and quality.
- **Business-Led Modular Technology and Data Platform.** The company puts in place a fit-for-purpose, modern technology architecture driven by business needs to enable secure, scalable performance, rapid change deployment, and seamless ecosystem integration.

**Successful digital transformations
show clear impact in the form of
significantly greater EBIT
increases.**





Success Rates Have Room for Further Improvement

The latest survey shows that 35% of companies achieve their digital transformation objectives, up from 30% in 2020. The good news for the less successful transformers is that the proportion of companies who failed to create significant impact (the woe-zone companies) fell to 13% from 26%, while those who have created significant impact but are still short of their goals (worry-zone companies) increased to 52% from 44%.

The modest increase in 2021 success rates may reflect an increasing “experience effect” as knowledge disseminates about how the six key success factors drive results. The share of companies reporting success on each factor ranges from 8% to 27%. Modest improvement in several factors over the last year contributed to the overall modest increase in success rates, since our research has shown that companies need to be scoring 8 or higher on all six factors to move into the win zone.

Executives expressed useful insights about the challenges of adequately addressing the six success factors ([see the exhibit](#)):

- There was more confidence in the ability to link transformation clearly to strategy—the first success factor—than there was in the other factors. This was reflected in the smaller range of scores for the first factor, the average of which was close to the win zone.
- The “best” average score, and the only average score to reach the win zone, was for leadership. Still, the spread of scores indicates that leadership issues are still not adequately addressed by many companies. One executive summed this up, saying “Our executive team is pretty aligned, though not very digitally literate. We are struggling to get middle managers to lead the charge in changing the status quo.”

Scores on the Six Success Factors Are Still Mostly Lower than Those Required for Success

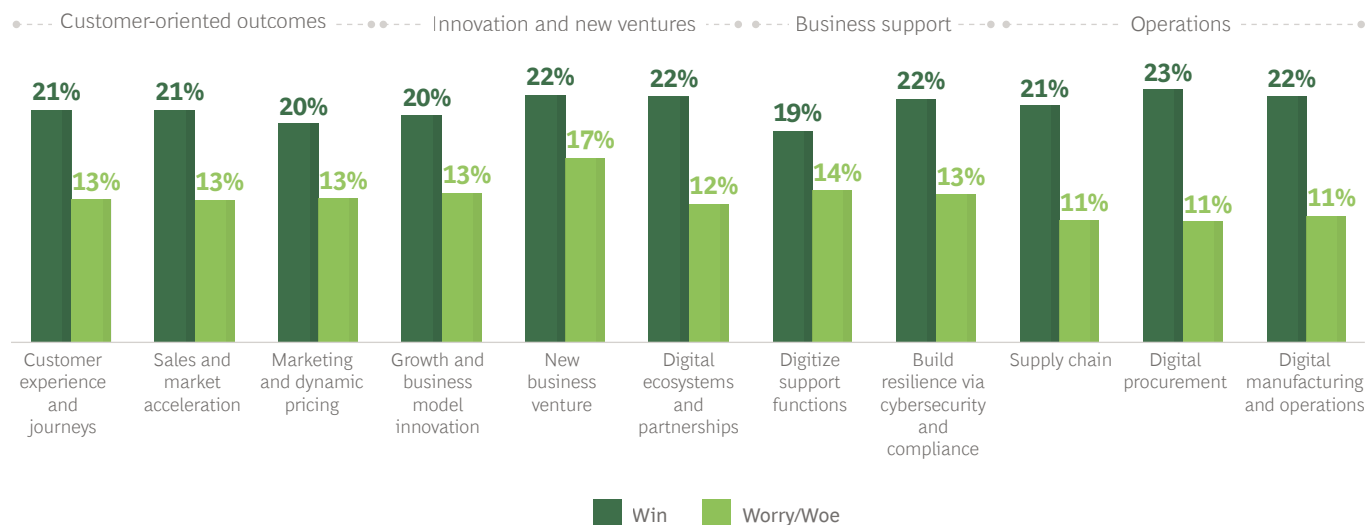


Source: BCG Global Digital Transformation Survey, 2021.

- Among average scores for the six success factors, the least improvement came in companies' ability to find and deploy high-caliber talent—which reflects the shortage of digital skills as well as the difficulty less digitally capable companies and less digitally sophisticated industries have in attracting and retaining such talent. For example, one company told us that it has been searching for a chief digital officer for several months and has been underwhelmed by the applicants it has been able to attract.
- Agile governance, monitoring results, and modular technology all showed increases in average scores, although the range of scores for agile governance indicates that this remains a major impediment for more traditional organizations. At many companies, this issue boils down to not being able to work effectively on cross-functional missions and end-to-end business outcomes—with too much time, energy, and resources being wasted in functional silos with misaligned functional KPIs that promote win-lose outcomes and turf wars.

Exhibit 3 - Successful Transformations Generate More Value, Irrespective of Focus

Average EBIT improvement by transformation element



Source: BCG Global Digital Transformation Survey, 2021.

Successful Digital Transformations Drive Sustainable, Scalable Benefits

The gap between the successful transformers and the rest extends beyond short-term financial results. Companies that have been successful in the first wave of a digital transformation report much greater success in scaling those capabilities to create broader, sustainable change, with win-zone companies reporting success rates 1.5 times greater than woe-zoners on average. (See Exhibit 4.) The difference rises to 2.1 times among large organizations with \$25 billion in revenues or more. This represents a huge advantage—as many executives tell us, it’s one thing to deliver a “point-solution success” but quite another to drive the adoption of new technologies and ways of working at scale across divisions and regions.

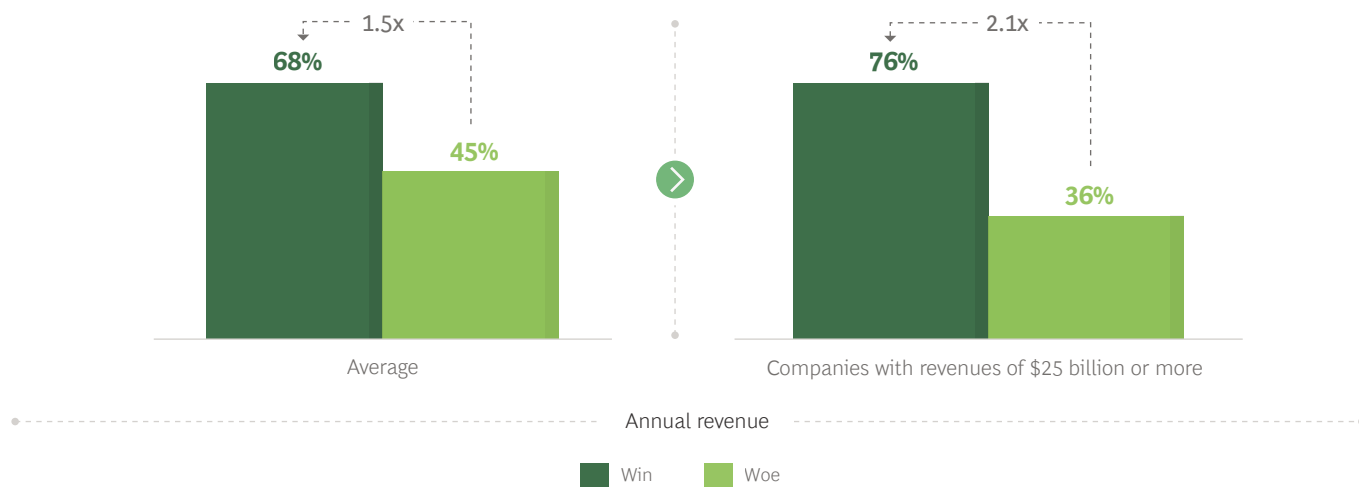
It is also clear that companies with better digital capabilities outperform the rest. Separate BCG research in June 2021 showed that twice as many leaders as laggards in [BCG’s Digital Acceleration Index \(DAI\)](#) increase enterprise value each year; 33% of digital leaders increased total enterprise value by more than 10%, compared with only 15% of laggards. When asked about their ROI for digital projects, 66% of digital leaders reported a return of 10% or more, while only 36% of laggards did. Across six other KPIs in that study—cost reduction, share price increase, market share growth, and three types of EBIT impact—leaders were 50% more likely to reach the 10% return threshold than were digital laggards.

**The gap between successful
transformers and the rest goes
beyond financial results.**



Exhibit 4 - Successful Transformers Report a Greater Ability to Scale Their Transformations

Share of companies that have scaled their first wave of digital transformation initiatives



Source: BCG Global Digital Transformation Survey, 2021.

A More Strategic Focus

The primary business drivers for digital transformation are evolving as we emerge from the cloud of COVID-19. At the height of the first surge of the pandemic in 2020, 83% of companies stated that COVID served as a wake-up call to accelerate their digital transformation efforts. Our latest survey, which was conducted between May and July of 2021, shows that companies are moving on. Only 24% cited COVID as a primary driver of their digital agendas, while 76% are focused on such priorities as shifting industry and customer dynamics, productivity, revenue uplift, and innovation. (See Exhibit 5.) As one executive put it, “COVID forced us to leverage digital assets to respond operationally to closed retail outlets, call centers working from home, and supply chain disruptions, but we are returning now to a more strategic focus for our digital priorities.”

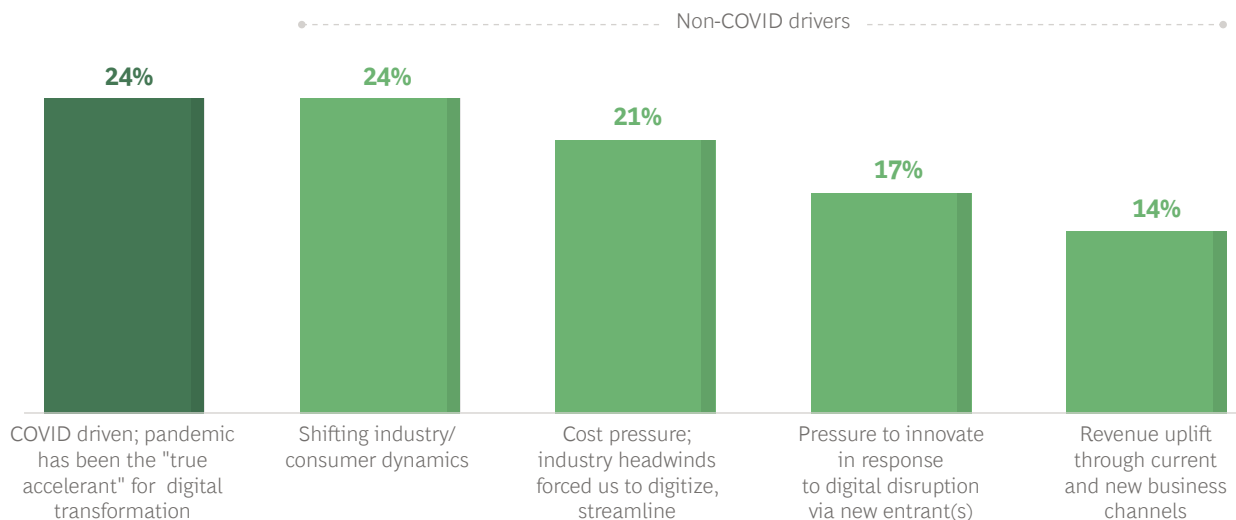
Companies today look to digital transformations to support a broad range of strategic objectives. (See Exhibit 6.) There’s no question that fixing the basics is an essential first step. Improving customer experience and journeys stands out as the top reason for a digital transformation, cited by 81% of respondents. Other top priorities include revenue growth and business model transformation (including the building of new business ventures outside the core), sales and marketing acceleration, and pursuing digital ecosystems and partnerships. Respondents also highlighted many functional areas as priorities, including support functions, compliance, supply chain, pricing, procurement, manufacturing, and operations.

Overall, the priorities can be grouped into four broad strategic objectives, based on the share of executives’ citations of each:

- Improving customer experience and go-to-market (cited by 31% of respondents)
- Innovation and growth in the core and beyond (28%)
- Performance improvement through the operational value chain (23%)
- Performance improvement in support functions (18%)

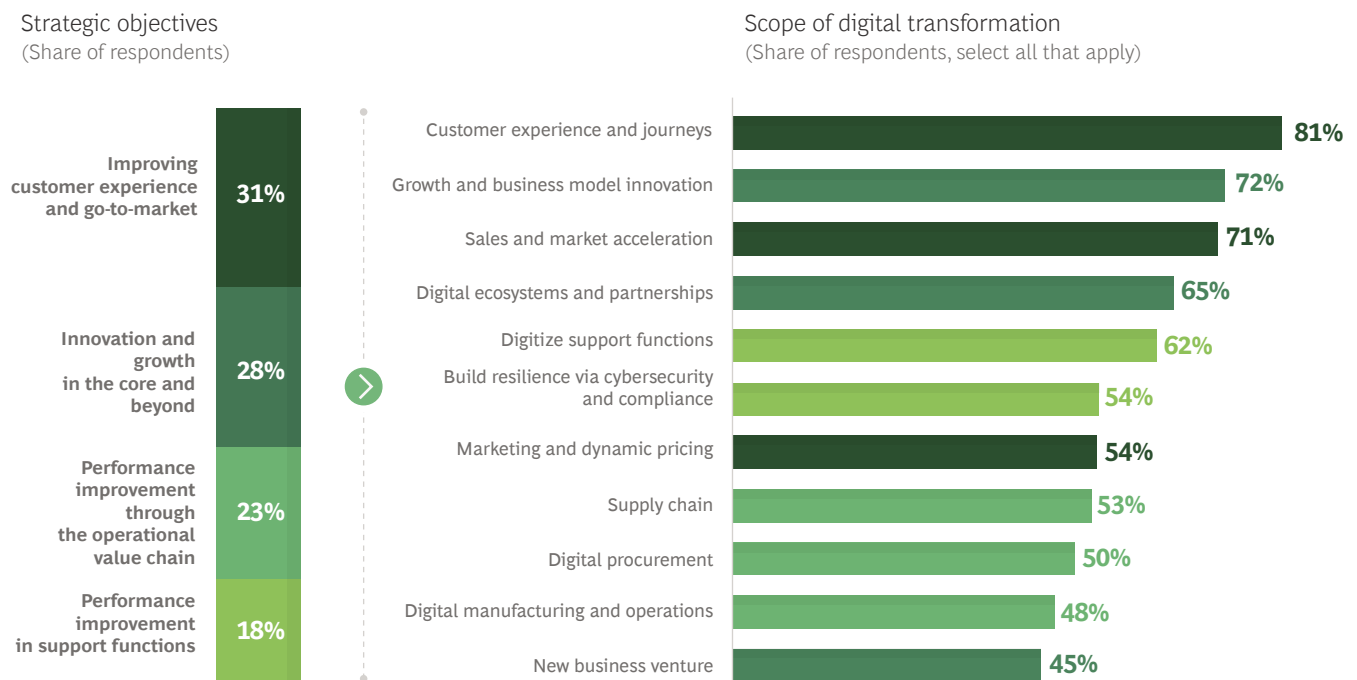
Exhibit 5 - Multiple Factors, in Addition to COVID, Are Now Driving Digital Transformations

Share of respondents who chose each factor as the top driver of their companies' digital transformations



Source: BCG Global Digital Transformation Survey, 2021.

Exhibit 6 - Customer Experience and Go-to-Market Are High Priorities In Digital Transformations



Source: BCG Global Digital Transformation Survey, 2021.

Digital transformation priorities differ markedly by sector. For example, customer experience and journeys ranks as by far the most important objective in telecommunications and retail, cited by 98% and 97% of respondents, respectively; these are sectors in which consumer expectations have been set by digital natives such as Amazon, Spotify, and Uber. Customer experience has a lower emphasis in oil and gas (61%) and utilities and power (63%) since many of these organizations focus on upstream supply, generation, and transmission.

Digitizing manufacturing and operations are of critical importance to materials and process industries (77%), engineering products and infrastructure companies (75%), and utilities and power companies (73%). Innovation, especially around new business ventures, shows the highest relative importance in media (57% of respondents) while growth and business model innovation are at the top of the agenda in sectors as varied as insurance (90% for retail, 85% for commercial) and technology (87% for internet-based companies and 79% for hardware manufacturers). Health care providers also show high focus on innovation topics, with both business model innovation and digital ecosystems and partnerships being among the top three most frequently cited priorities.

From Digital Reengineering to Digitally Led Innovation at Scale

The research reveals another important dynamic. For companies that have already scaled an initial wave of transformation initiatives, the emphasis is clearly shifting from digital reengineering to innovation. These companies used the first wave of digital transformation to address the all-important basics of their core businesses: digitally reengineering customer journeys and sales and marketing channels and processes, and using digital solutions to drive improved productivity. Now, companies that have successfully scaled their transformations are shifting the emphasis from fixing their core value chains to focusing on innovation—both in the core and with new ventures. (See Exhibit 7.) Successful digital transformers are upping the ante—and as they leverage their digital skills to innovate faster and better, the gap will widen between winning digital transformers and their laggard competitors.

Companies that have successfully scaled also tend to broaden from the focus on the core value chain—customer journeys, manufacturing, and supply chain—to include support functions such as HR and finance. As one executive said, “We didn’t feel that we had the bandwidth to go beyond digitizing customer journeys in the first wave. But the business cases for digitizing support functions, such as finance (to improve forecasting and reporting) and HR (to improve the employee experience), are compelling too.”

This shift in focus makes sense. As one executive said, “We had massive complexity and cost in our legacy IT systems. So we focused first on simplifying our IT and technology stacks, moving workloads to the cloud and making our data accessible. This has made it far easier to innovate in both our core offerings and adjacent spaces.” It’s almost as if the first wave of digital transformation was the price of entry for more ambitious moves now in the works. These companies have done the heavy lifting of digital reengineering and are moving to a state of continuous innovation, with the prospect of never having to do another programmatic transformation. It also sets them on the path to becoming truly bionic—the kind of company that blends new technologies with human capabilities to power innovation, advantage, growth, efficiency, and resilience.

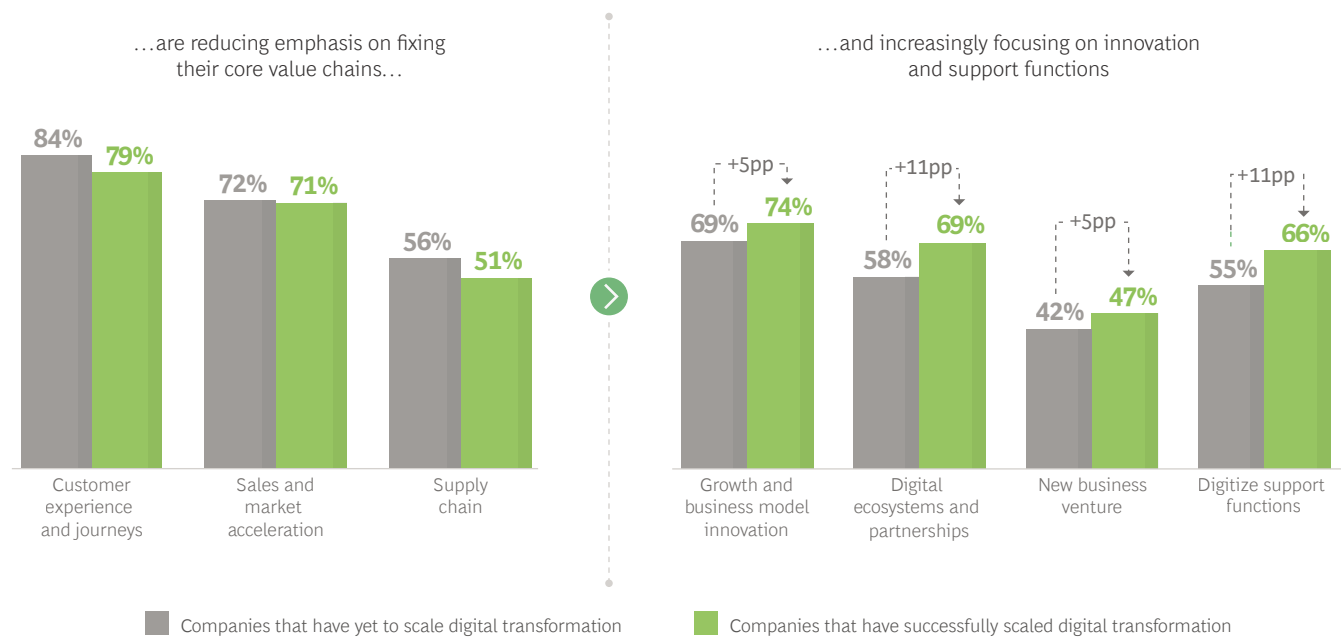
The shift also makes sense from an investor perspective. BCG research into the drivers of sustainable shareholder value creation has shown that over a typical five- to ten-year period, [revenue growth accounts for about 60% of value created](#), more than either margin expansion or changes in multiples. Moreover, the relationship between innovation and shareholder return is borne out by the performance of the portfolios of the world’s [50 most innovative companies](#), ranked each year by BCG. These innovators delivered total shareholder returns between 2007 and 2012 that were 4 percentage points higher per year than the MSCI index. During COVID-19, the prepandemic “50 most innovative companies” of 2020 outperformed the index by 17 percentage points—and even if you remove the “hard to emulate” high-flying tech giants (Apple, Google, Amazon, Facebook, and Netflix), top innovators’ performance was still 13 percentage points higher.

Companies that successfully scale a digital transformation can shift their focus from core capabilities to innovation and growth.



Exhibit 7 - Companies Shift from Reengineering to Innovation as They Successfully Scale Their First Wave of Digital Transformation

Companies that have successfully scaled their transformations...



Source: BCG Global Digital Transformation Survey, 2021.

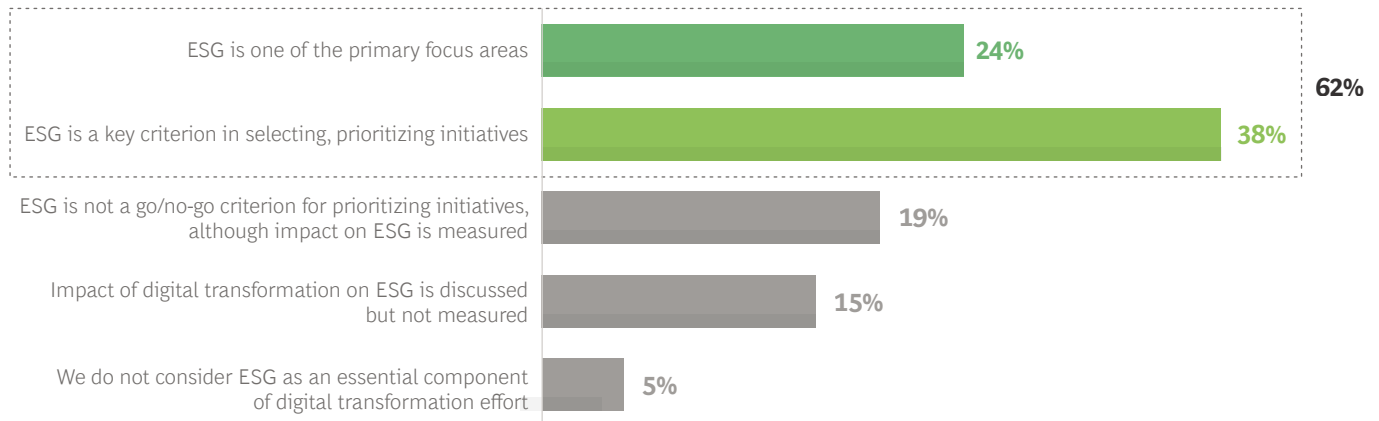
ESG Rises as a Digital Priority

Environmental, sustainability, and governance (ESG) goals have quickly emerged as a major consideration for selecting and prioritizing digital initiatives. Our latest survey shows a dramatic increase in the importance of these considerations in setting the digital agenda. More than 60% of respondents listed ESG factors as a primary focus or a key criterion for selecting and prioritizing digital initiatives. (See Exhibit 8.)

While the rise of ESG criteria as a digital priority has been swift, its importance does vary by sector. (See Exhibit 9.) Materials and process industries, along with the automotive, energy, and health care sectors, lead the pack in considering ESG as a primary focus for their transformations. Many of these are energy intensive and therefore in the spotlight for emissions reduction, while health care is focused on the social elements of sustainability, such as health equity. Sectors that are highly focused on moving toward more sustainable products—engineering, industrial products, and infrastructure, for example, and materials and process industries—have some of the highest shares of respondents who measure the ESG impact of their digital transformation.

Exhibit 8 - ESG Has Emerged As a Major Consideration For Selecting And Prioritizing Digital Initiatives

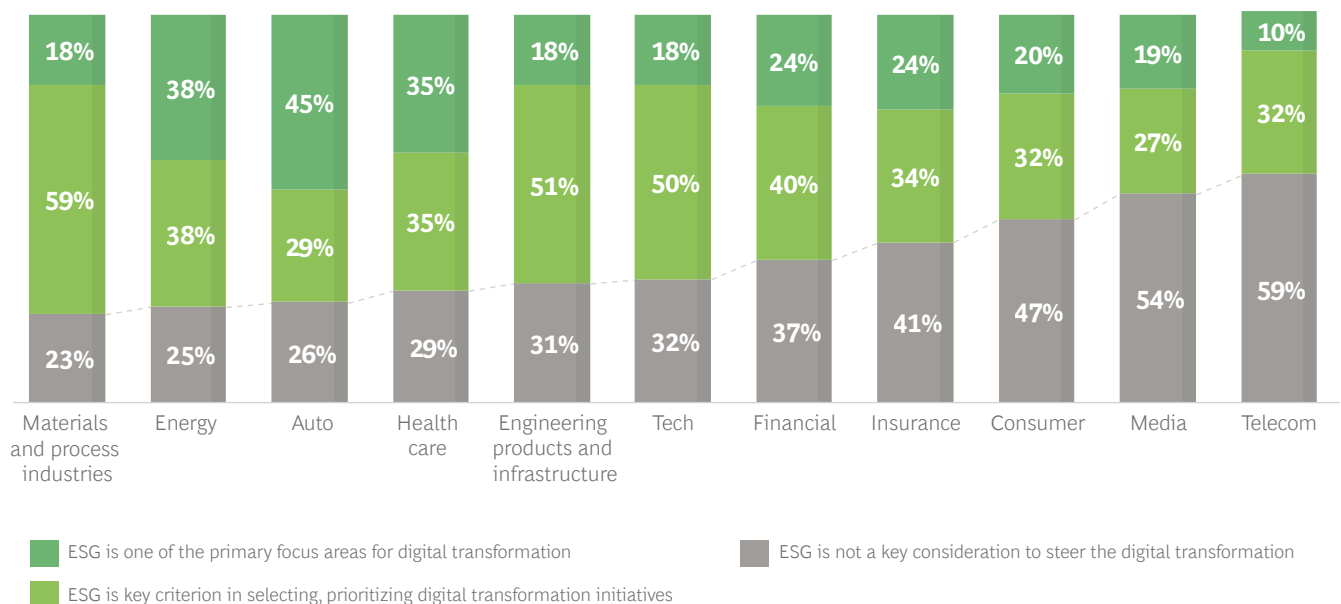
Share of respondents linking digital transformation and sustainability



Source: BCG Global Digital Transformation Survey, 2021.

Exhibit 9 - Adoption of ESG Goals in Digital Transformation Varies by Sector

Share of respondents by link between digital transformation and sustainability



Source: BCG Global Digital Transformation Survey, 2021.

Once again, there is a stark difference between successful digital transformers and the rest. Even in sectors with a relatively weak overall reported link between ESG and the digital agenda, digital leaders are almost twice as likely to make ESG a priority than laggards. Digital leaders are using their digital capabilities to position themselves well with investors, customers, and employees as well as for future opportunities.

We are in the midst of a great “digital retooling” of the world’s major corporations. This is a race on a global scale at digital speed. The rewards for successful transformers are huge in terms of customer experience, employee engagement, and financial uplift. More importantly, these companies are moving ahead in building and scaling their digital capabilities. They are establishing a digital mindset, implementing digital ways of working, and enabling continuous improvement. This is the gateway to an exciting innovation agenda, in which they can exploit the multiple opportunities offered by current and future technology disruption rather than trying to defend their turf against digital insurgents. The 2021 survey highlights how important it is to be one of the 35% of winning companies—and the imperative to address the shortcomings in your digital transformation agenda.

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