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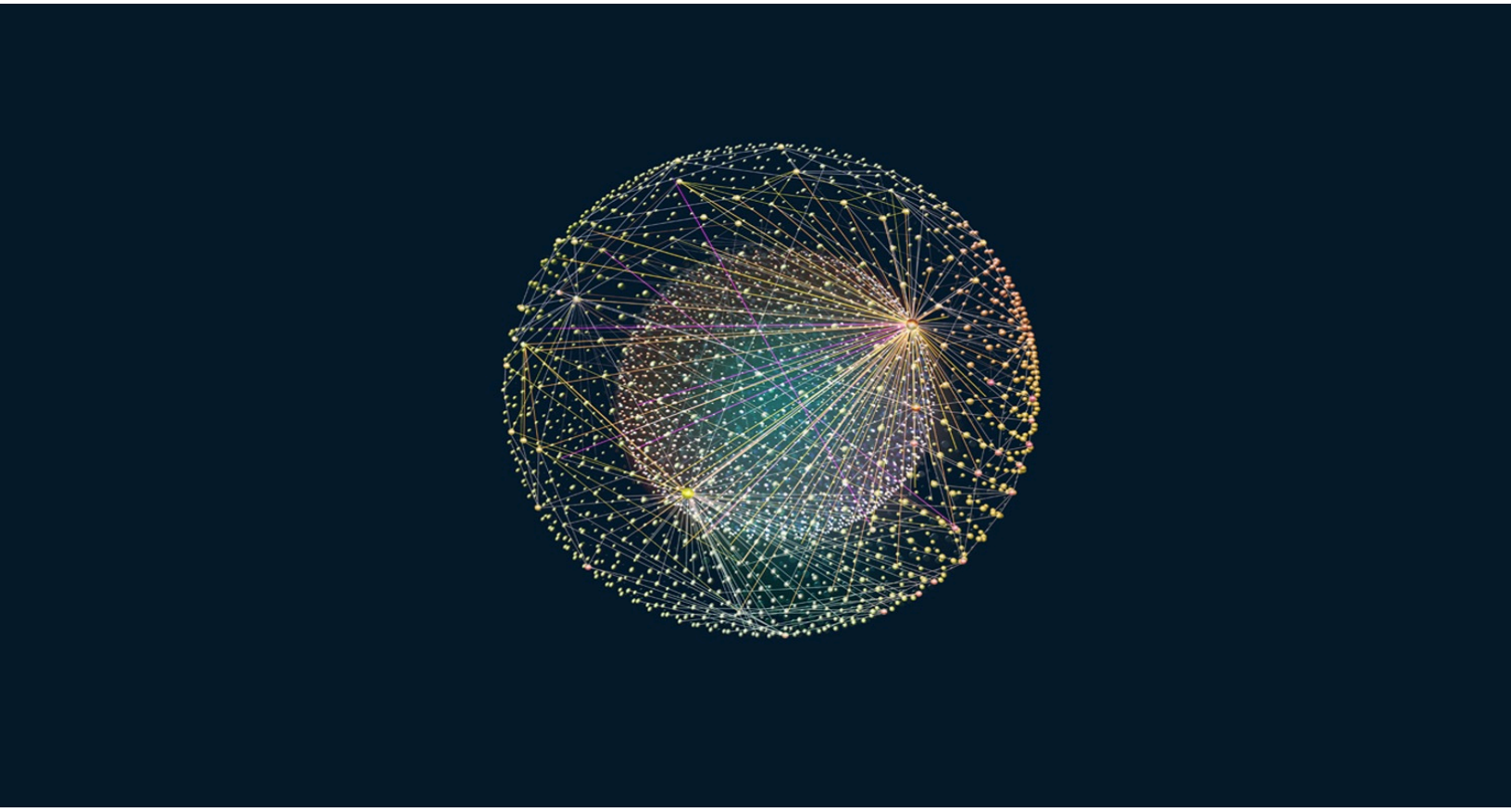
Strategy & Corporate Finance Practice

How innovative companies leverage tech to outperform

Organizations with innovation cultures realize more value from strategic technology investments than their peers do, our latest digital survey finds.

by Matt Banholzer, Laura LaBerge, Andy West, and Evan Williams



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Leading companies are increasingly deploying sophisticated technologies in pursuit of innovations that will help them secure future growth. However, our latest McKinsey Global Survey on digital strategy and investment finds that for those investments to bring enterprise-wide benefits, companies need to develop operating models and cultures that embrace innovation.

Respondents to our prior surveys had identified cultural challenges as the biggest barrier to getting results from digital investments. Risk aversion, siloed mindsets, and a general aversion to technology slow down the adoption of new tools and processes. Our latest survey of more than 1,000 executives reinforces those earlier findings, with misaligned culture or ways of working cited among the top three reasons for failed or stalled digital transformations.

With new technologies such as generative AI (gen AI) poised to disrupt many sectors and functions, and more than three-quarters of survey respondents stating that their companies' current business models will not be economically viable by 2025, innovation is a clear priority for many firms. We wanted to better understand how culture and an organization's operating model affect the success of innovation initiatives. We also wondered whether innovative organizations deploy technology in distinct ways.

To explore these issues, we zeroed in on a cohort of survey respondents (about 10 percent of the sample of executives across industries and geographies) who stated, based on their own assessments, that their organizational cultures drove innovation success. We then tested whether this segment achieved better business outcomes.

Creating an innovation-focused culture

Efforts to focus an organization's culture on innovation must be both systematic and intentional. Our earlier research identified five priorities that leaders can embrace to foster such a culture—ranging from explicitly identifying innovation as a core corporate value to championing and rewarding experimentation to creating a sense of safety that failure won't exact career costs.

In our new survey, organizations reporting a strong innovation culture had double the rate of effectively scaling the impact of their digital transformations than organizations with weak innovation cultures (Exhibit 1). In addition, more than half of innovation-focused companies had increased digital investments during the past two years, compared with only a third of their less innovative counterparts. Perhaps more important, organizations with innovation cultures have twice the rate of investment in innovation and R&D. They also direct their technology spending to where it will have the biggest business impact: accelerating competitive differentiation and embedding a sustainable operating model.

Accelerating competitive differentiation

Companies with strong innovation cultures are ahead of their peers in using technology to distance themselves from competitors (Exhibit 2). More than half are adopting technologies that allow them to capture the benefits of network effects, as online marketplaces do for retailers. Nearly two-thirds are deploying artificial intelligence in their core processes, both internal and customer-facing, to enhance speed, granularity, and accuracy. At innovation-forward healthcare organizations, for example, AI is improving medical diagnoses and treatment plans, while beverage companies are experimenting with AI-generated drink flavors.

In addition, the vast majority of these companies capture the cost and flexibility benefits that digital platforms and cloud business models can bring. Organizations with complex partner networks, for instance, can use technology backbones to cascade small design changes throughout their supply chains. Finally, leading innovators have the pull to attract top tech talent, using this talent as a "force multiplier" to accelerate innovation in their business models and their offerings.

All of these actions were once the purview of tech natives but are now being deployed by leading incumbents. Established companies are recognizing that embracing new ways of working and adopting operating models that have digital technology at the center are critical to their ability to innovate and pivot quickly.

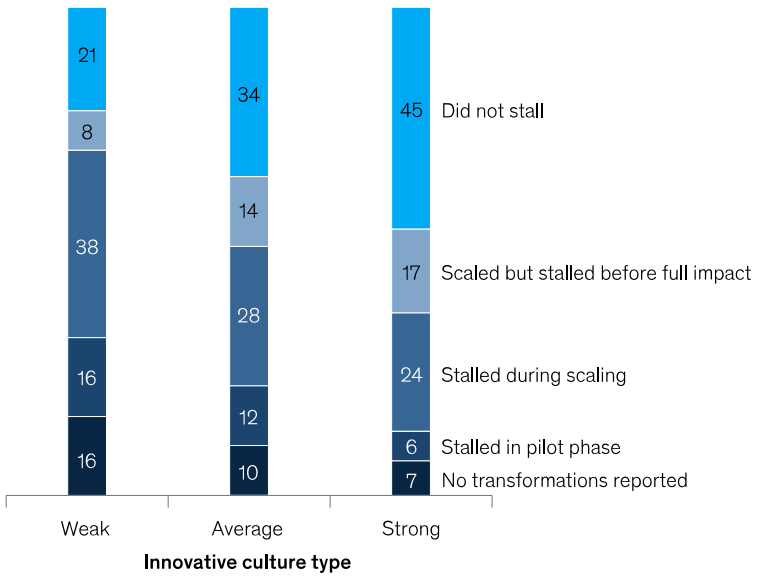
Rewiring the operating model

Our experience shows that for digital transformations to succeed, companies must not only develop data and technology capabilities but also change their operating models. We previously reported that companies unlock the most value with technology when they apply it to innovating their

Exhibit 1

Companies with strong innovation cultures are much more likely to succeed in digital transformations.

Outcome of transformations by innovation culture type, % of respondents selecting each outcome



Note: Figures may not sum to 100%, because of rounding.
Source: McKinsey Global Survey on digital strategy, 2023, n = 1,086

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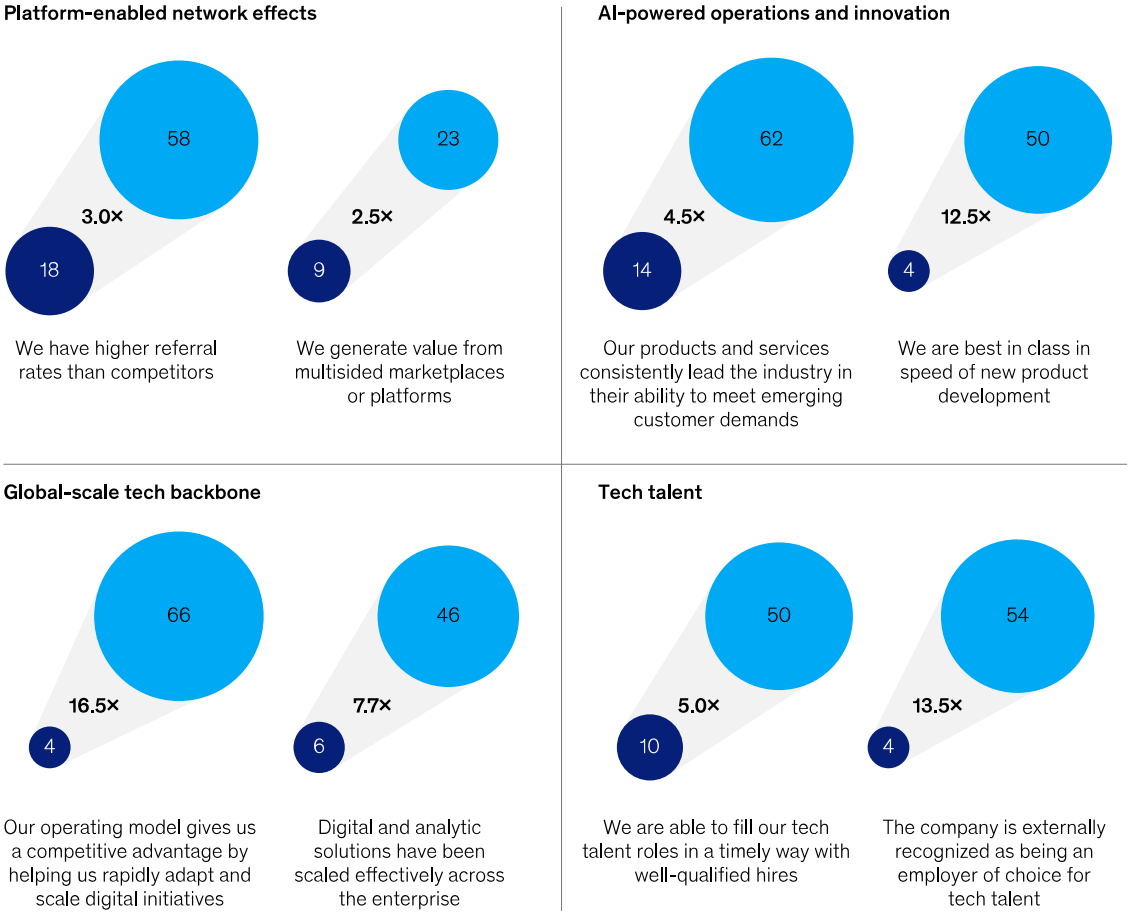
Exhibit 2

Organizations with strong innovation cultures excel at leveraging digital investments to differentiate themselves from their competitors.

Digital investment success of organizations by type and innovation culture, % of respondents

● Agreed innovative culture gave them competitive edge ● Disagreed innovative culture gave them competitive edge



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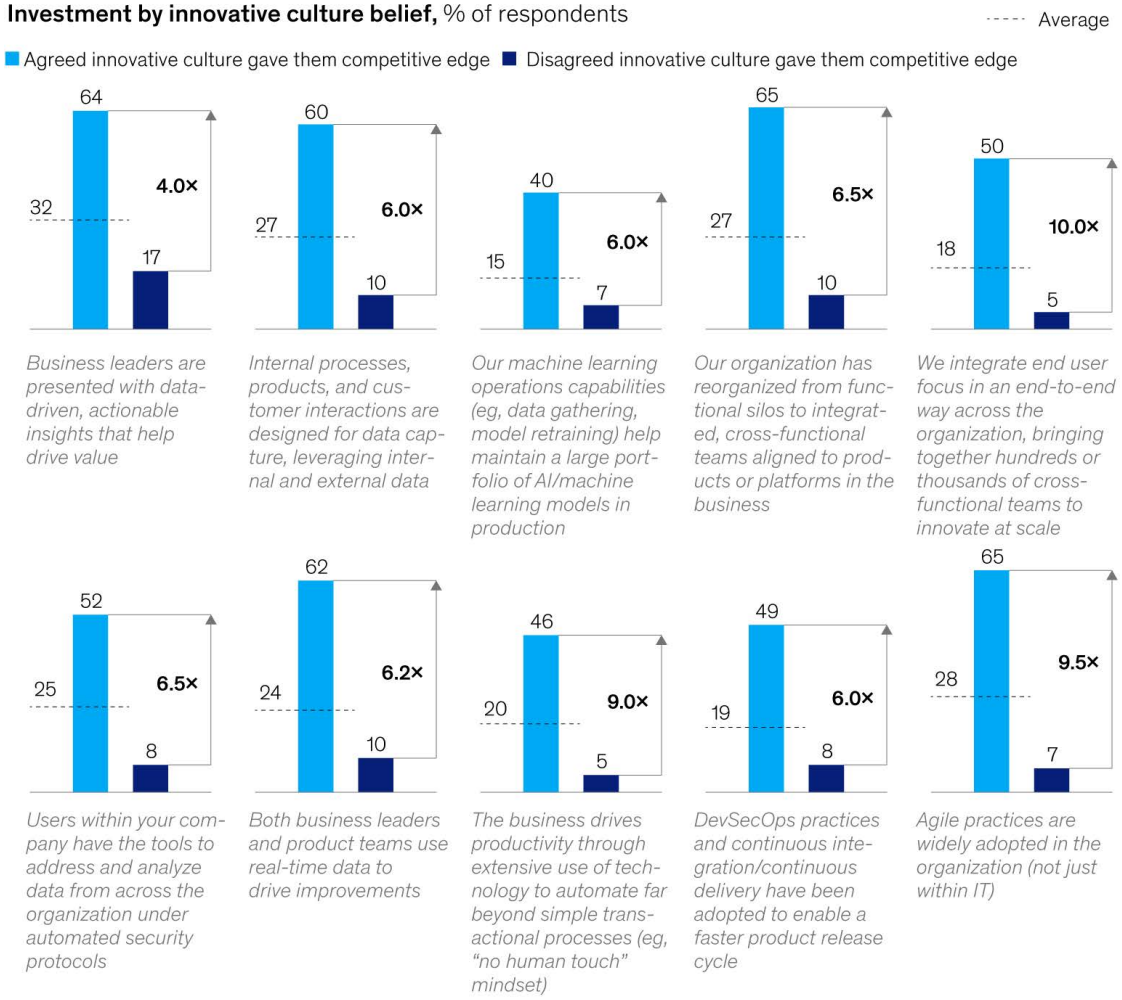
entire business model rather than focusing on disconnected use cases. Our latest research confirms that finding and also shows that innovative companies prioritize technologies and operating model changes that help them hardwire and accelerate rapid learning and adaptation—key elements of innovation. When we asked survey participants about more than 30 practices and capabilities, we found top innovators particularly ahead of peers on applying technology to three dimensions of their business: speed, integration, and fact orientation (Exhibit 3).

Exhibit 3

Leading innovators are investing in areas that hardwire their organizations for speed, integration, and fact orientation.



Source: McKinsey Global Survey on digital strategy, 2023, n = 1,086

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Innovative companies use technology to help them base decisions on facts and data at levels far beyond their peers. This externally informed mindset reduces vulnerability to biases and internal politics—and enables the company to rapidly course-correct its strategies, R&D priorities, and portfolios of initiatives. For example, these organizations are six times more likely than those with weak innovation cultures to have designed their products, internal processes, and customer interactions to capture data, which can inform decisions on what to kill, adapt, or scale. Their leaders are also nearly three times more likely to make decisions based on those data-driven insights, avoiding the "analysis paralysis" that ensnares many other organizations. They then gain a competitive edge in spotting shifts in customer needs and market conditions.

Top innovators also leverage technology to break down (or at least perforate organizational silos. Doing so is critical in responding rapidly to change and in optimizing initiatives for the entire organization. Innovative companies not only build cross-functional teams but also pool cross-functional data so that those teams gain a more holistic view of the business. They also are nine times more likely to have an end user focus to break down silos within their organizations and more than five times as likely to have integrated control functions and security protocols into their processes and organization-wide data access. As a result, their leaders can better identify opportunities that maximize overall business outcomes. Just as important, they can spot initiatives that, while benefiting one area of the business, could negatively affect other areas, as may happen with projects susceptible to cybersecurity breaches if team members lack the right expertise.

Companies with innovation cultures further use technology to ensure that the added granularity and complexity do not compromise speed. They are more than eight times as likely as others to have deployed key agile practices across the organization, accelerating their ability to learn and adapt. Their business leaders have access to real-time data to help them make decisions quickly. Innovative organizations also integrate their processes, from development through delivery, and are eight times more likely than their less innovative peers to have moved beyond simply automation to employ technologies such as gen AI. As gen AI and other cutting-edge technologies improve, companies already leveraging them are likely to widen their innovation lead on competitors.

Achieving business outperformance

Does all of this activity translate into outperforming competitors? Our analysis suggests, emphatically, yes. When asked about a set of business outcomes from their innovation efforts, top innovators reported significantly higher impact (Exhibit 4. They are ten times faster at developing new products than weak innovators, for example. They also have a sixfold lead on being able to scale a new business, and their offerings are more than three times as likely to meet customers' needs.

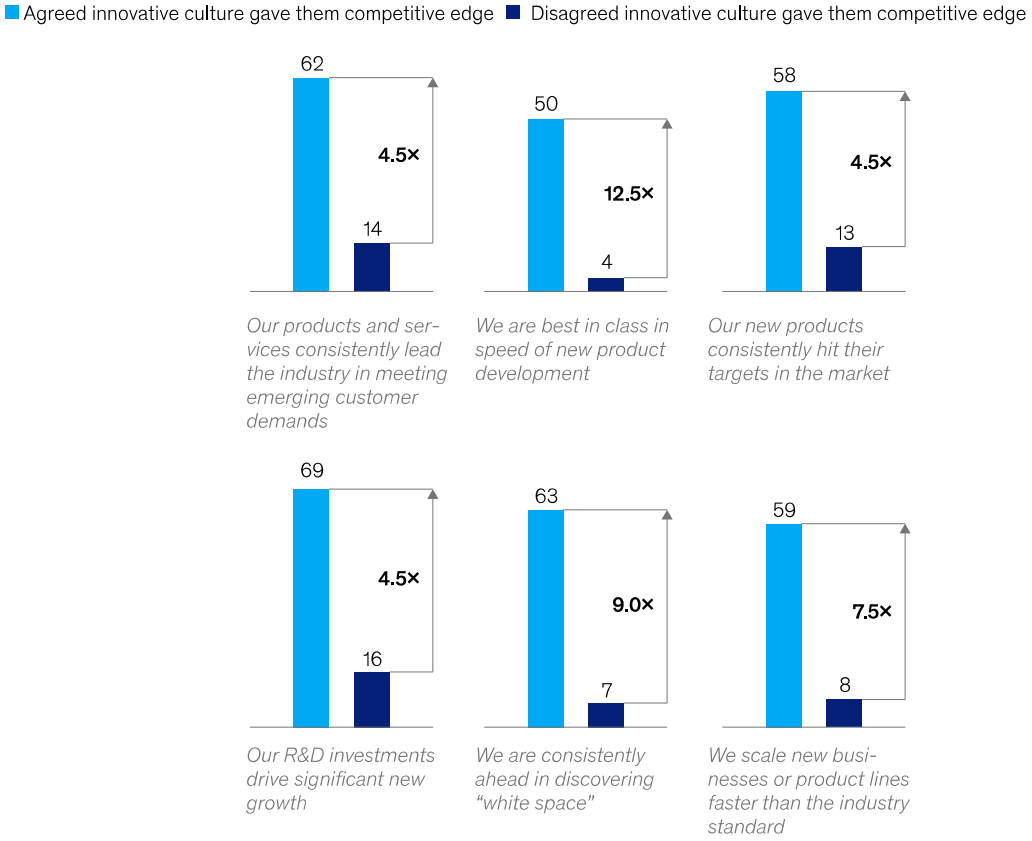
These organizations were also more than ten times as likely as those with weak innovation cultures to be overall economic outperformers, ranking in the top decile in both revenue growth and EBIT. While some of this success could stem from other factors, it is clear that the innovation outcomes, enabled by specific technology investments, play a role.

The combination of strategic investments and operating model improvements is propelling top innovators ever further ahead of the pack. New

Exhibit 4

Top innovators are more successful at creating business value from investments in tech and R&D.

Successful innovation, by innovative culture belief, % of respondents who agree



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technologies, such as gen AI, will only accelerate this advantage, particularly in an era of global uncertainty, when identifying shifts and adapting to them are even more critical. Companies launching digital transformations with the hope of speeding growth and innovation can improve their odds of success by taking a broader look at their operating models and cultures. These nontechnological elements are often overlooked, but our research shows them to be critical to anchoring the innovation practices that are necessary for growth and long-term performance.

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