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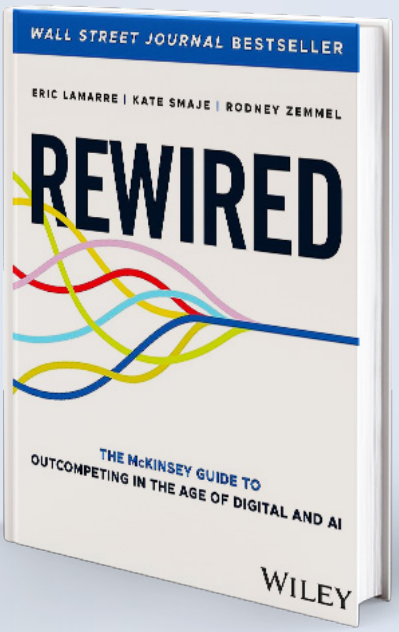

Rewired

The McKinsey Guide to Outcompeting in the Age of Digital and AI

By Eric Lamarre, Kate Smaje, and Rodney Zemmel

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Outcompeting in the Age of Digital and AI

In ***Rewired: The McKinsey Guide to Outcompeting in the Age of Digital and AI***, authors Eric Lamarre, Kate Smaje, and Rodney Zemmel define digital and AI transformation as "the process of developing organizational and technology-based capabilities that allow a company to continuously improve its customer experience and lower its unit costs and over time sustain a competitive advantage" (xiv). This is what the authors set out to help their readers accomplish in their own organizations. The book is broken down into key sections each highlighting a key aspect of the transformation process, and it ends with three detailed case studies of companies that successfully made a digital transformation.

Lamarre, Smaje, and Zemmel assert that business professionals will be spending the rest of their lives transforming their digital capabilities because digital, by its very nature, is constantly changing. Unfortunately, these transformations are not easy, and they frequently require companies to fundamentally change how they operate. While companies make significant investments in digital technology, their success rate at achieving the desired transformation is generally not very high. According to their research, Lamarre, Smaje, and Zemmel assert that there are specific practices that can help companies succeed. The transition to digital, if well done, is a worthy one as those leading in digital outperform other organizations and are financially rewarded. Lamarre, Smaje, and Zemmel maintain that "cross-functional alignment is core to what differentiates digital winners in any industry" (6). Digital leaders need to attract high quality talent and form agile teams that are capable of continuous improvement. This requires significant investment in numerous areas.

The Transformation Roadmap

Lamarre, Smaje, and Zemmel maintain that it is never too late for a company to begin their digital journey. A company's top team needs to be aligned when it comes to the desired transformation. Key players need to be aware of why the company is making these changes, and they need to be in alignment. In short, they need to understand their role in the transformation about to take place. There is an initial investment of time needed, but then value needs to be built along the way rather than just at some point in the distance. Also important is the scale. It

is crucial that companies avoid starting either too small or too big. The authors believe that "the right approach is to identify a few important and self-contained domains in the business and rethink them completely" (25). To determine which domains to focus on first, companies ought to consider both "value potential and feasibility" (26). Once the domains are selected,companies then need to look for how they can make a meaningful impact. To do this, the authors recommend against going after every possible technology.

Lamarre, Smaje, and Zemmel believe it is best to organize such transformations around pods or small agile groups. Within these pods, continuity is key, and the authors state that while staffing might evolve, "there is never a handover from one pod to another" (44). Time is also important when it comes to these transformations. While the digital roadmap will likely encompass the next couple of years, it is important to also operate with a vision towards the more distant future.

The Tech Team

Lamarre, Smaje, and Zemmel maintain that digital transformations such as they describe cannot be entirely outsourced. Companies must invest in people. They recommend that 70-80% of the talent be located in house. To begin to accomplish this, a company must first know where they stand with the talent they have on hand. There are numerous ways to evaluate the skills and expertise of a company's current talent pool such as both manager and individual assessments, online testing, and technical interviews.

When moving on to hire new talent, it is important that companies seek out employees with specific skills and that they also look for other factors such as communication and team-working skills. The authors consider a person's learning aptitude to possibly be the most important intrinsic skill companies should look for in new hires. Lamarre, Smaje, and Zemmel recommend building a Talent Win Room that includes both tech and HR specialists. Like other key players, these groups should work as agile pods. The difference is that in this case, the customer is the candidate. One problem Lamarre, Smaje, and Zemmel find in tech recruiting is that a company's technologists are often not treated as primary members of their companies. Instead, tech is treated as a division. This is offsetting to top tech talent as they aspire to work in environments that provide plenty of opportunity to improve their skills while working with high quality colleagues. Once a new employee is hired, Lamarre, Smaje, and Zemmel bemoan the amount of time it takes to get new hires to work because of often cumbersome onboarding processes. "Digital talent wants and expects to contribute immediately" (99).

Lamarre, Smaje, and Zemmel mention two key career paths tech talent can take: the managerial track and the engineering track. When it comes to compensation for these employees, Big Tech is often the mark that other companies base their own compensation packages on. The authors recommend that in regards to compensation, there exists a "granular segmentation of levels driven by credentials" (103). But it is not just financial compensation that matters. Tech professionals want clear job titles and competent mentors. Companies should consider what meaningful commitments they can give to their talent to demonstrate their importance even if they cannot meet the perks of a Big Tech company. Lamarre, Snake, and Zemmel go on to say the frequent informal reviews are important and that tech talent expects reviews to be done by people who have mastered the craft. Tech talent deserves to know what they will be judged on and what they need to accomplish in order to move up to a higher level.

New Models

Lamarre, Smaje, and Zemmel maintain that the development of an operating model "is perhaps the most complex aspect of a digital and AI transformation because it touches the core of the organization and how people work together" (117). Agile teams are the means by which to accomplish these transformations. Four characteristics frequently differentiate agile pods from legacy systems:

Teams are mission based.

Teams are cross-disciplinary.

Teams are autonomous and are held accountable for impact.

Teams move quickly.

The first task of these teams is to establish their mission for the next year or more. This mission is broken down into OKRs or Objectives and Key Results. The authors also encourage the use of sprints. These sprints occur over a two-week time period and are used to "develop features of a digital solution" (125). These sprints end with teams sharing the work they completed rather than formulating official presentations.

The authors move on to discuss the different types of pods. The number of pods can run in the hundreds or even thousands per organization. Managing these pods becomes more difficult when they increase in number. There are three types of pods within the digital operating model. The first type of pod is a product or experience pod, and the people in these pods create digital services that are used by either customers or employees. In this way, they create value. The second type of pod is the platform pod. The job of these pods is to help support products through back-end technology and data capabilities" (131). The third type is a chapter which refers to "a group of people with the same role." (132). In this way, people in the same chapter can collaborate with other people who perform the same function in a pod that they do.

There are three types of agile operating models: digital factory, product and platform, and enterprise-wide. While companies often start with the digital factory model, the authors believe the product and platform model will eventually become the dominant model when technology is the major performance differentiator. Product management building is a key factor in digital transformations. Key players in this management are the product owner and the senior product owner. The difference is that the former leads one pod whereas the latter leads multiple pods. These owners are accountable "for the entire lifecycle of

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the product" (151). These owners are often found within the company rather than from the outside because they need to have an intimate understanding of the business.

Technology

The purpose of technology is to make it easier for pods to release innovations to customers. The authors maintain that "the best architectures provide flexibility, stability, and speed" (173). The cloud is a key component in this. The cloud allows users to pool data and further allows for asynchronous usage. To manage the pitfalls involved with manually building software, the authors posit that automation is key. Flexibility is key as both technology and architecture evolve. When it comes to the cloud Lamarre, Smaje, and Zemmel state that the greatest benefit is not in the lower-cost it provides but rather in the cloud's greater "agility, innovation, and resilience" (185).

Data

Companies usually have more data than is needed, so it is first important to determine which data is most important and focus attention on that. Once priority is determined, accuracy needs to be ascertained with accuracy mattering more in some cases than in others. While quality data is crucial in digital and AI transformations, it can be costly to acquire such data. Therefore, companies must know clearly what types of data are available to them and what they should invest in.

Data architecture refers to the systems in place that take data from where it is stored to where it will be used. Data platforms are used for both AI-based solutions and business intelligence. Companies traditionally use either cloud based or data lake archetypes. Other options are lakehouses, data mesh, and data fabric. An organization's needs will determine which archetype to use although at the time of the writing, the authors maintain that the capabilities necessary for successful use of the data fabric archetype are not yet where they need to be.

Another consideration in regards to data is how centralized that data is. Some companies use largely decentralized models while others have teams specifically to serve the whole organization. Many companies are starting to employ chief data officers who are responsible for data strategy and governance. The best DataOps are integrated into every phase of the lifecycle, utilize the maximum amount of automation, and use robust tools for processes such as monitoring.

Change Management

Once digital advances have been made, companies can find themselves having difficulty getting users to adopt these solutions. This requires change management, but a change management solution will only be helpful if the end product is useful to the user. One strategy to help with adoption is to package all these solutions together in a single change intervention program so users do not have to continuously accommodate to change. A specific adoption team can be helpful when the adoption is complex and will require long-term support.

Managing risk and building trust is key to innovations. Consumers need to know that their data will be protected and that the products are trustworthy. Organizations need to review their policies in regards to data and the cloud. There is the risk that numerous different risk professionals will work in silos. A downfall of this is that sometimes needed information from these security experts does not become available until after significant work has been done. Sometimes trust can be automated when policies are turned into code. This helps speed up development processes and decrease risk.

Near the end of the book, the authors discuss culture. They believe that their book has helped lay out the actions companies need to undertake in order to build their own digital culture. Leaders often need to invest in their own skills and knowledge in order to lead companies on these journeys. Leaders can take classes either virtually or in person, embark on go & see visits, and partake in company supplied programs that help leaders hone and develop the necessary skills for this new environment.

The authors end their book with an examination of three companies that have made progress in transforming their businesses through digital and AI. The book is a highly practical one with specific programs and processes companies can undergo. It is meant to be comprehensive as it focuses on numerous different areas executives need to examine in order to progress their own organizations. The book is useful for both the verbal and the visual learner as ample diagrams are used to explain key ideas. In the end, the book is a valuable resource for those looking to transform their organization.