

How to beat the transformation odds

Transformational change is still hard, according to a new survey. But a focus on communicating, leading by example, engaging employees, and continuously improving can triple the odds of success.

After years of McKinsey research on organizational transformations,¹ the results from our latest McKinsey Global Survey on the topic confirm a long-standing trend: few executives say their companies' transformations succeed.² Today, just 26 percent of respondents say the transformations they're most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time. In our 2012 survey, 20 percent of executives said the same.³

But some companies have beaten the odds. We asked respondents whether their organizations follow 24 specific actions that support five stages of a transformation.⁴ At organizations that took a rigorous, action-oriented approach and completed their transformations (that is, all of their initiatives have been fully implemented), executives report a 79 percent success rate—three times the average for all transformations. According to the results, no single action explains the difference; in fact, the more actions an organization takes, the more likely its transformation is to succeed. Still, the results suggest that some transformation practices correlate much more closely than others with success. These practices include communicating effectively, leading actively, empowering employees, and creating an environment of continuous



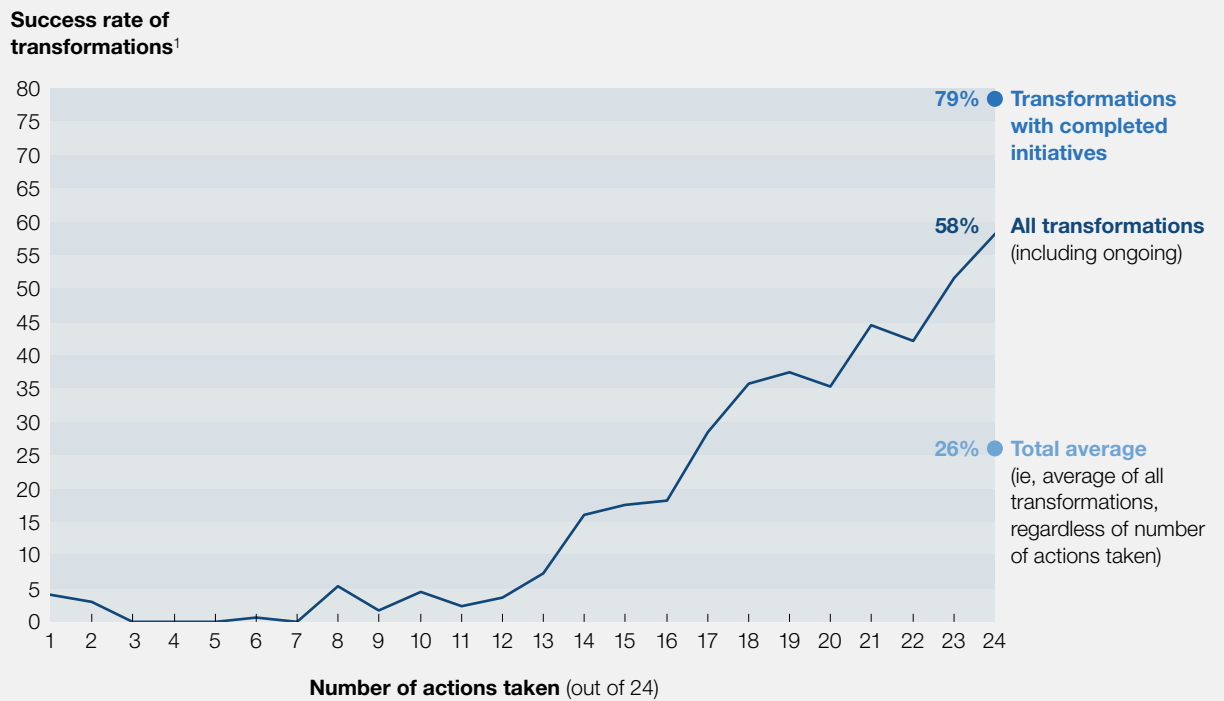
improvement so organizations can keep their performance from stagnating (or even regressing) once a transformation’s goals are met.⁵ By implementing continuous-improvement activities that enable the organization to look regularly for new and better ways to work, respondents’ organizations double their chance of successfully sustaining improvements after the transformation.

The power of action—and communication

To test which transformation practices correlate most with success, we asked executives about 24 specific actions that support a transformation’s five stages (see sidebar, “The 24 actions of transformation”). Indeed, the results indicate that when organizations follow a rigorous approach and pursue all of these actions during a transformation, the overall success rate more than doubles from the average (26 percent), to 58 percent (Exhibit 1). Among only completed transformations, respondents report a success rate of 79 percent—about triple the average success rate for all transformations.

Exhibit 1 When organizations follow a rigorous approach to transformation and take more actions, the overall success rate improves dramatically.

% of respondents at organizations pursuing given number of actions, total n = 1,713



¹ Respondents who report “success” say the transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

The 24 actions of transformation

In this survey, we asked executives about 24 practical actions that, in our experience, support the successful implementation of a transformation. Below are the specific actions in order of their impact (from greatest to least) on the likelihood of a transformation's success, according to the results.

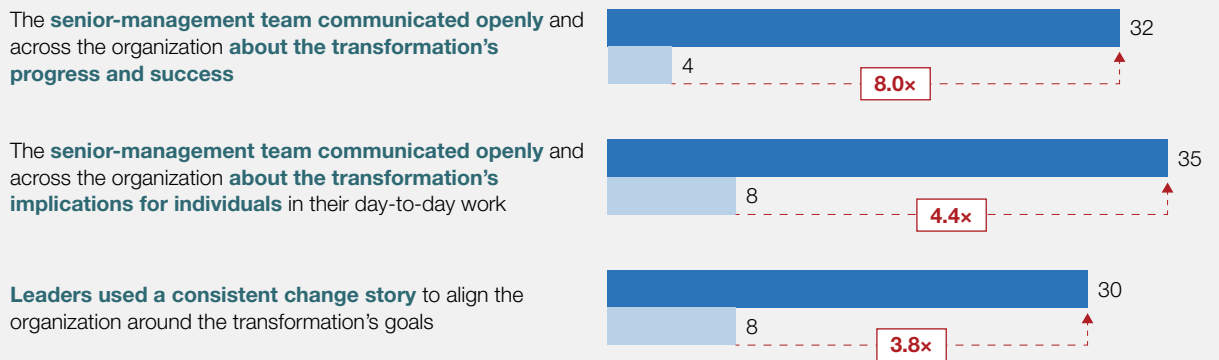
- Senior managers communicated openly across the organization about the transformation's progress and success
- Everyone can see how his or her work relates to organization's vision
- Leaders role-modeled the behavior changes they were asking employees to make
- All personnel adapt their day-to-day capacity to changes in customer demand
- Senior managers communicated openly across the organization about the transformation's implications for individuals' day-to-day work
- Everyone is actively engaged in identifying errors before they reach customers
- Best practices are systematically identified, shared, and improved upon
- The organization develops its people so that they can surpass expectations for performance
- Managers know that their primary role is to lead and develop their teams
- Performance evaluations held initiative leaders accountable for their transformation contributions
- Leaders used a consistent change story to align organization around the transformation's goals
- Roles and responsibilities in the transformation were clearly defined
- All personnel are fully engaged in meeting their individual goals and targets
- Sufficient personnel were allocated to support initiative implementation
- Expectations for new behaviors were incorporated directly into annual performance reviews
- At every level of the organization, key roles for the transformation were held by employees who actively supported it
- Transformation goals were adapted for relevant employees at all levels of the organization
- Initiatives were led by line managers as part of their day-to-day responsibilities
- The organization assigned high-potential individuals to lead the transformation (e.g., giving them direct responsibility for initiatives)
- A capability-building program was designed to enable employees to meet transformation goals
- Teams start each day with a formal discussion about the previous day's results and current day's work
- A diagnostic tool helped quantify goals (e.g., for new mind-sets and behaviors, cultural changes, organizational agility) for the transformation's long-term sustainability
- Leaders of initiatives received change-leadership training during the transformation
- A dedicated organizing team (e.g., a project-management or transformation office) centrally coordinated the transformation

Exhibit 2 Across all 24 transformation actions, communicating—especially about progress—links most closely with success.

% of respondents¹

- Agree (somewhat or strongly) that statement describes organization's transformation
- Disagree (somewhat or strongly) that statement describes organization's transformation

Success rate of transformations²



¹Respondents who answered "don't know/not applicable" are not shown.

²Respondents who report "success" say the transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

While the results show that success links closely to a greater overall number of actions, they also indicate that not all 24 actions are created equal. Communication, specifically, contributes the most to a transformation's success (Exhibit 2). At companies where senior managers communicate openly and across the organization about the transformation's progress, respondents are 8.0 times as likely to report a successful transformation as those who say this communication doesn't happen. Good communication has an even greater effect at enterprise-wide transformations, where company-wide change efforts are 12.4 times more likely to be successful when senior managers communicate continually.

It also helps when leaders develop a clear change story that they share across the organization. This type of communication is not common practice, though. When asked what they would do differently if the transformation happened again, nearly half of respondents (and the largest share) wish their organizations had spent more time communicating a change story.

Lead, don't manage

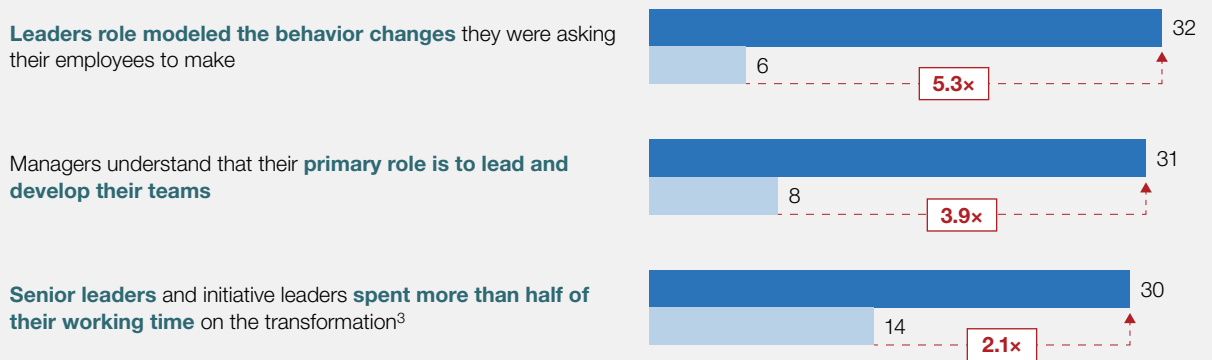
According to respondents, leadership matters as much during a transformation as it does in the company's day-to-day work. It can't be delegated to a project-management office or central team—the presence (or not) of which has no clear bearing on a transformation's success—while executives carry on with business as usual. Indeed, when senior leaders role model the behavior changes they're asking employees to

Exhibit 3 Transformations are more likely to succeed when company leaders are active and involved.

% of respondents¹

- Agree (somewhat or strongly) that statement describes organization's transformation
- Disagree (somewhat or strongly) that statement describes organization's transformation

Success rate of transformations²



¹ Respondents who answered “don’t know/not applicable” are not shown.

² Respondents who report “success” say the transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

³ In a separate question from those asking about the 24 actions, respondents who identified themselves as senior leaders or leaders of transformation initiatives were asked how much of their overall time they spent working on the initiatives.

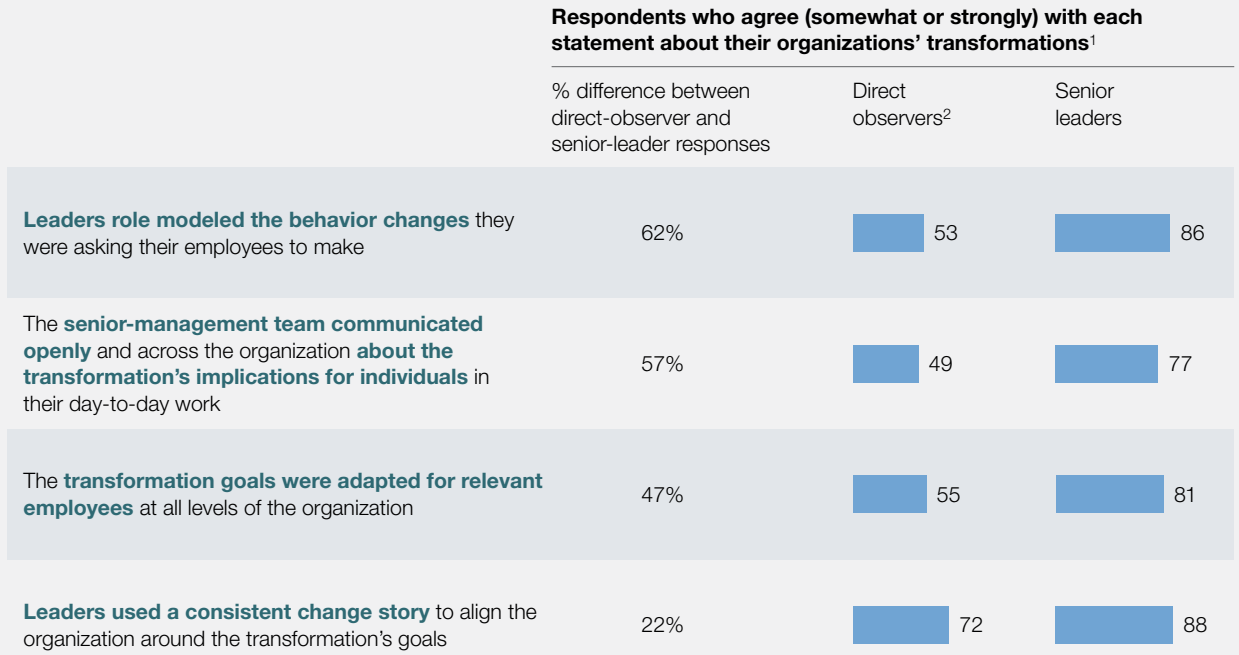
make (by spending time on the factory floor or in the call center, where work is done), transformations are 5.3 times more likely to be successful (Exhibit 3). Success is twice as likely when senior leaders and the leaders of initiatives spend more than half of their time on the transformation. In practice, though, only 43 percent of these leaders say they invested that much working time in the transformation’s initiatives.

But even if they’re involved, senior leaders face some potential pitfalls. First is the perception gap between them and everyone else in the organization (Exhibit 4). Eighty-six percent of leaders say they role modeled the desired behavior changes when transformation initiatives were being implemented, yet only half of all employees who were part of the transformation (but didn’t play an active role) say the same. Overall, senior leaders are also 2.5 times as likely as other employees to rate their companies’ transformations a success.

A second pitfall, in addition to outsize optimism, is overplanning. Few initiative leaders—only 22 percent—say they would spend more time planning the transformation if they could do it over again. Instead, these respondents most often say they would spend more time communicating a change story (49 percent) and aligning their top team (47 percent).

Exhibit 4 Senior leaders are more positive than others about the rigor of their transformation efforts.

% of respondents, by role in the transformation



¹ Respondents who answered “strongly disagree,” “somewhat disagree,” or “don’t know/not applicable” are not shown.

² Employees who were part of the business, functional, or geographic unit affected by the transformation but who did not play an active role in the transformation initiatives.

Choose the right people and empower them

An involved team of senior leaders is only half the battle. Executives report that for transformations to truly succeed, companies must think about the role that employees play as well as their people needs across the organization. If the transformation happened again, the largest share of executives say they would move faster to keep people resistant to changes out of leadership or influencer roles.⁶

According to respondents, it’s important to define clear roles so employees at all levels are prepared to meet the post-transformation goals—a factor that makes companies 3.8 times more likely to succeed

(Exhibit 5). Also key to an effective people strategy is allocating enough employees and the right ones—that is, the high performers and active supporters—to work on the transformation. One effective way to hold these people accountable, according to the results, is using transformation-related metrics. Executives who say their initiatives’ leaders were held accountable for their transformation work in annual evaluations are 3.9 times more likely than others to report a successful transformation.

Prepare for continuous improvement

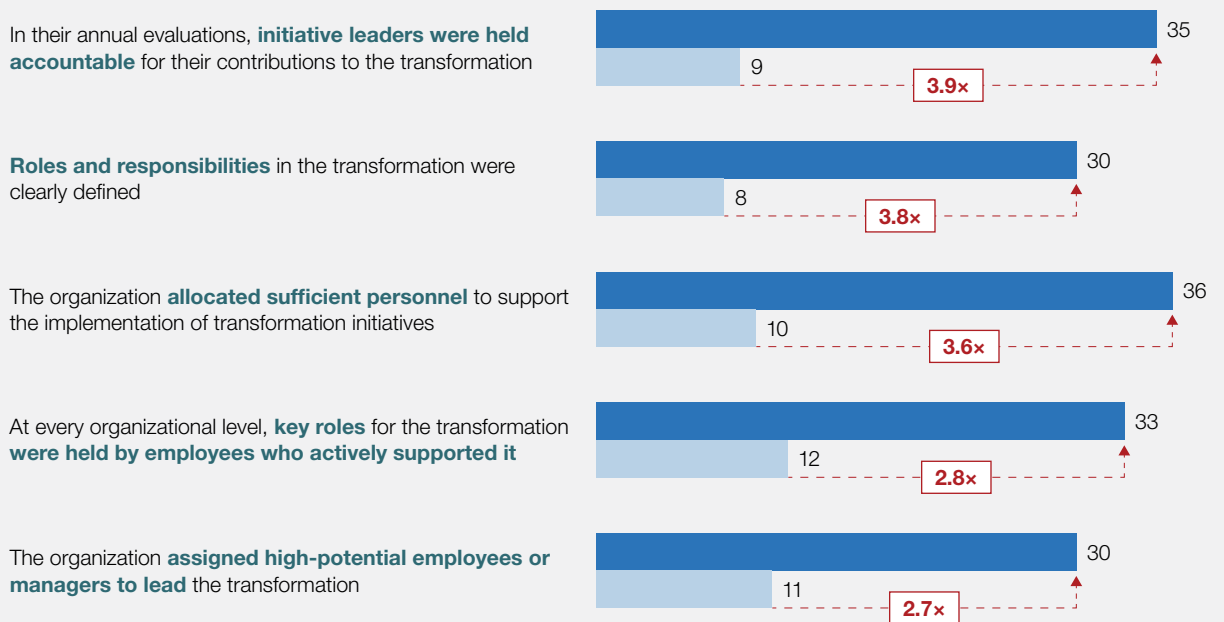
Once initiatives are fully implemented, the change effort does not end; almost 40 percent of respondents say they wish they had spent more time thinking about how their organizations would continue to improve. Several specific practices that help companies connect strategy to daily work, deliver value more

Exhibit 5 To engage employees in a transformation, companies must define roles and hold initiative leaders accountable.

% of respondents¹

- Agree (somewhat or strongly) that statement describes organization’s transformation
- Disagree (somewhat or strongly) that statement describes organization’s transformation

Success rate of transformations²



¹ Respondents who answered “don’t know/not applicable” are not shown.

² Respondents who report “success” say the transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

efficiently to customers, enable people to contribute to their best ability, and discover new ways of working all link to an organization’s long-term health—and can keep companies from backsliding on performance gains and support continuous improvements after transformation.

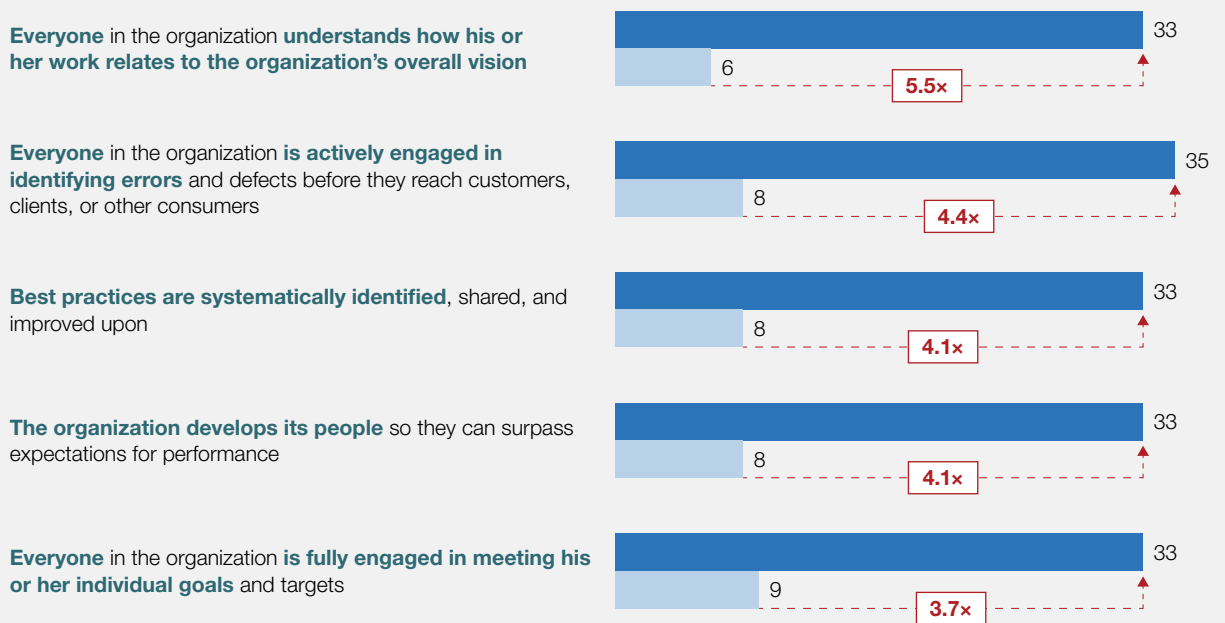
For example, in organizations where people understand how their individual work supports the company’s broader vision, executives are 5.5 times likelier than others to say the transformation has been successful (Exhibit 6). To achieve long-term success, that link must also be reinforced with a company-wide commitment to identifying opportunities for improvement—a practice that more than quadruples the likelihood of success. Likewise, executives report a much higher rate of success when their companies have a systematic process for developing people’s capabilities and for identifying, sharing, and improving upon best practices.

Exhibit 6 When organizations plan for continuous improvement after a transformation, the likelihood of overall success also increases.

% of respondents¹

- Agree (somewhat or strongly) that statement describes organization’s transformation
- Disagree (somewhat or strongly) that statement describes organization’s transformation

Success rate of transformations²



¹ Respondents who answered “don’t know/not applicable” are not shown.

² Respondents who report “success” say the transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

Of the eight continuous-improvement actions we asked about, one was an outlier: only one-third of executives say teams of employees begin their days discussing the previous day's results and the current day's work, compared with strong majorities of executives who agree that their organizations take each of the other actions. But respondents whose organizations *had* implemented daily discussions were twice as likely as others to report success.

Looking ahead

Focus on people, not the project. Transformations are about the people in the organization as much as they're about the initiatives. The long-term sustainability of a transformation requires companies to engage enthusiastic high-potential employees, equip them with skills, and hold them accountable for—as well as celebrate—their contributions to the effort. Companies should, in our experience, take the same steps toward developing people throughout the organization. To build broad ownership, leaders should encourage all employees to experiment with new ideas: starting small, taking risks, and adapting quickly in their work. Doing so can create far-reaching and positive support for change, which is essential to a transformation's success.

Communicate continually. When embarking on a transformation, executives should not underestimate the power of communication and role modeling. The results suggest that continually telling an engaging, tailored story about the changes that are under way—and being transparent about the transformation's implications—has substantially more impact on an effort's outcome than more programmatic elements, such as performance management or capability building. But the communication doesn't end once the change story has been told. Leaders must continually highlight progress and success to make sure the transformation is top of mind across the organization—and to reduce the gap between what employees believe is happening and what they see.

Take more action. Transformation is hard work, and the changes made during the transformation process must be sustained for the organization to keep improving. There is no silver bullet—and while some factors have more impact than others on a transformation's outcome, the real magic happens when these actions are pursued together. Overall, the survey indicates that the more actions an organization took to support each of the five stages of transformation, the more successful it was at improving performance and sustaining long-term health. ■

¹ See Javier Muñoz González-Blanch, Caroline Pung, and Marc Vinson, "Organizing for successful change management: A McKinsey Global Survey," July 2006; and Scott Keller, Mary Meaney, and Caroline Pung, "What successful transformations share: McKinsey Global Survey results," March 2010, mckinsey.com. We define transformations as large-scale efforts to achieve substantial, sustainable changes in performance, enabled by long-term shifts in the mind-sets, behaviors, and capabilities of employees.

² The online survey was in the field from November 11 to November 21, 2014, and garnered responses from 1,946 executives representing the full range of regions, industries, company sizes, functional specialties, and tenures. Of them, 1,713 executives have been part of at least one transformation in the past five years, at either their current or previous organization. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

³ The 2012 online survey garnered responses from 2,301 executives representing the full range of industries, regions, titles, functions, and company sizes. Of them, 479 said their organizations' transformations successfully improved performance *and* equipped their organizations for sustained, long-term performance.

⁴ We define the five stages, or the five "frames," of transformational change as setting goals (for both performance and organizational health), assessing organizational capabilities, designing the transformation initiatives, executing those initiatives, and sustaining the changes that were made. At companies that took action on all five frames, respondents report an overall transformation success rate

of 72 percent. For more information, see Scott Keller and Colin Price, *Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage*, first edition, Hoboken, NJ: John Wiley & Sons, 2011.

⁵ For more information on continuous improvement, see *The lean management enterprise*, January 2014, on mckinsey.com.

⁶ When asked what they would do if the transformation happened again, 44 percent say they would move faster to neutralize people resistant to change. An equal share say they would spend more time developing and communicating a change story, followed by 43 percent who say they would set clearer targets.

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