

A recent McKinsey survey supports the view that transforming organizations calls for sustained energy from their people and suggests how to unleash it.

Harnessing energy to drive organizational change

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Sir Isaac Newton doubtless cared more for physics than for managing organizational change. Yet Newton's first law, which states that a moving object will change neither its speed nor direction unless a force is applied to it, is remarkably appropriate for executives seeking to transform the performance of large modern corporations.¹ Just as energy must be expended to bring about a change in the trajectory of a moving object, so human energy must be mobilized and sustained if a corporation's trajectory is to be changed by a transformation effort.²

This observation, born of our years of experience working on performance transformation efforts with major businesses around the world, underpins the general principles we believe should be applied across a range of operational, organizational, and leadership

contexts. These principles, outlined in the sidebar, "Six catalysts for a successful transformation," on the next page, are all agents for mobilizing and sustaining human energy.

To test our beliefs about managing change and, in particular, to investigate the role of energy in driving a transformation, we recently carried out a global survey of executives who have first-hand experience of a transformation in their organizations.³ What emerged from the research should provide rich food for thought to CEOs and other senior executives leading transformations. First, the data confirm just how difficult it is to achieve deep-rooted organizational change: only a third of those questioned rated as strongly positive the results of the transformation their company experienced. Equally significant, the survey respondents

reported overwhelmingly that energy is a vital ingredient that separates successful programs from moderately successful or failed ones, that companies employing the six catalysts have a much better chance of mobilizing and sustaining a transformation, and that several specific operational mechanisms appear to shorten the odds even further in favor of a positive outcome.

In today's competitive markets, every organization periodically faces the challenge of a performance transformation. We now know that success requires the harnessing of human energy. This article describes and interprets our research for those seeking to unleash that energy.

The challenge of a transformation

Experienced leaders instinctively understand that transforming an organization

is difficult. Attempts to change the behavior of large numbers of people usually provoke resistance or, at the very least, complex and often unpredictable reactions. Our research first and foremost confirms the scale of the challenge.

We asked executives to judge success in two ways. One was to gauge the transformation program's impact on the company's performance, such as its profitability, return on capital employed, and market value. The other was to measure the ability of the process to lay a foundation for sustaining corporate health over the longer term—through, for example, upgraded capabilities, closer relationships with customers or suppliers, and a positive shift in organizational culture. The overall message from the survey is one of strikingly disappointed expectations. Organizations that

Six catalysts for a successful transformation

1. *Program architecture.* The architecture is articulated consistently at three levels: an overall change agenda, a set of core performance themes, and an array of individual initiatives.
2. *Performance and health.* The organization raises both its performance and health in an integrated way rather than trading them off against each other as conflicting goals.
3. *Aspirations and pace.* A powerful, long-term performance vision is rolled back to define a desired midterm future state that is more granular and actionable, helping to prepare the way for the necessary improvement initiatives and to manage the pace of change.
4. *Embedding change.* From an early stage in the transformation, highly visible manifestations of change in the organization's operating model lock in higher levels of performance, create energy, facilitate learning, and foster yet more change.
5. *Changing employee behavior.* Mind-sets and behavior are changed through a holistic approach that addresses the understanding and commitment of employees, the systems and structures that guide their actions, their skills and competencies, and their need for influential role models.
6. *Transforming leadership.* Leadership is a resource that is tapped to propel change and whose volume (the number of leaders in an organization) and depth (better and more capable leaders) can be systematically increased.

Goals of the transformation

% of respondents who have experienced a performance transformation in past 5 years¹



¹ All data weighted by GDP of constituent countries; figures do not sum to 100%, because respondents could select multiple answers; respondents who answered 'don't know' are not shown.

Source: June 2006 *McKinsey Quarterly* global survey of 1,536 business executives

unambiguously succeed with their programs appear to be in a clear minority: the results show that only 38 percent of the respondents believed that the transformations they had witnessed were “completely” or “mostly” successful in their impact on performance. For company health, that figure dropped to just 30 percent.

There were some interesting variations across sectors, geographies, and ownership structures. Achieving a successful outcome seems to be far more difficult for government and nonprofit organizations: only 16 percent of the respondents from the former and 23 percent of those from the latter rated the transformation as strongly positive. Respondents from financial services and heavy industry were generally more positive about their experiences than those from any other

sector, while transformations in India were perceived as having been more successful than those in any other part of the world.

As the CEO interviews in this and the previous issue of *Voices on transformation* show, companies undertake initiatives for a wide variety of reasons. For many companies, a transformation program is voluntary—planned as a way of raising their game. For others, the transformation is precipitated by a crisis such as a turnaround or by an external shock like privatization or a merger.

Likewise, the survey respondents identify diverse transformation goals (Exhibit 1). Not surprisingly, cost cutting is a common theme, especially among public-sector participants. Financial services, business services, and health care were markedly

more focused than the rest on moving from being good to becoming even better. IT and telecom companies seemed especially preoccupied with the need to catch up to their rivals.

Our analysis suggests that some transformation goals enjoy a moderately better rate of success than others. Some 41 percent of the respondents whose companies had sought to raise their game and 42 percent of the respondents whose companies had split up or divested part of the organization described the exercise as completely or mostly successful in its effect on performance. Only 32 percent of the respondents whose companies were trying to prepare for privatization or market liberalization claimed a similar sort of outcome.

Considering these low success rates, what distinguishes the successful companies from the rest? What general lessons can be applied to any transformation? Here the research is revealing.

Full of energy or running on empty?

Experience tells us that high-energy transformations are characterized by excited, determined people, by focused teams with a clear sense of where they are going and why, and by water cooler talk that demonstrates a pervasive understanding of and support for the organization's strategy (see sidebar "Positive mood swings"). The survey indicates that high-energy transformations really do work—if the energy is not only mobilized but also sustained over a period of months or

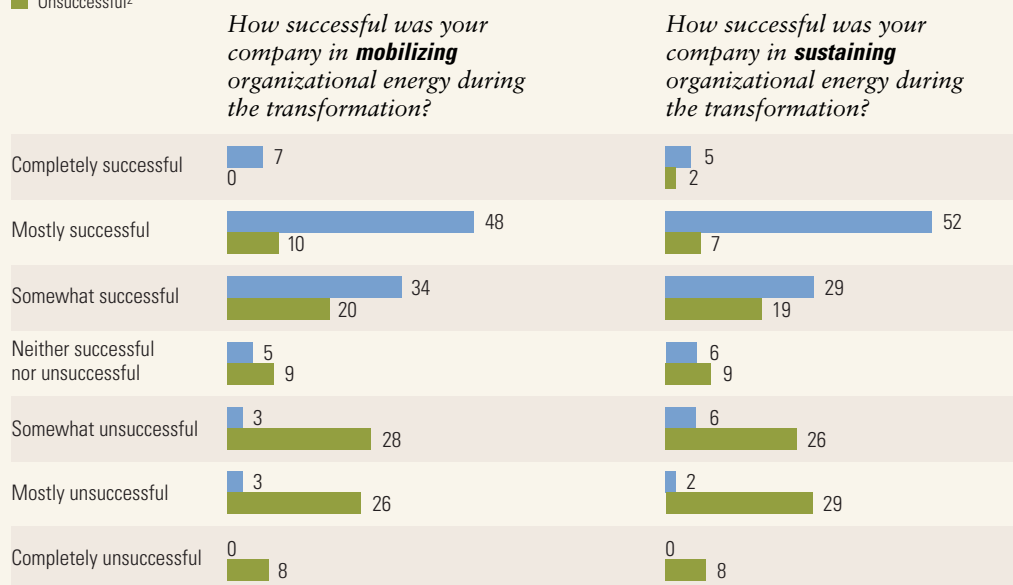
Exhibit 2

Evaluating organizational energy

% of respondents who have experienced a performance transformation in past 5 years¹

Respondents who report transformation was:

■ Successful²
■ Unsuccessful²



¹ All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; excludes respondents who answered 'don't know'; figures may not sum to 100%, because of rounding.

² 'Successful' defined as respondents who reported transformation was 'completely' or 'mostly' successful; 'unsuccessful' defined as respondents who answered 'somewhat,' 'mostly,' or 'completely' unsuccessful.

Source: June 2006 *McKinsey Quarterly* global survey of 1,536 business executives

Positive mood swings

Transformations provoke a range of emotions—some positive, some negative. Encouragingly, our research demonstrated a strong link between the mobilization of energy and positive moods among employees.

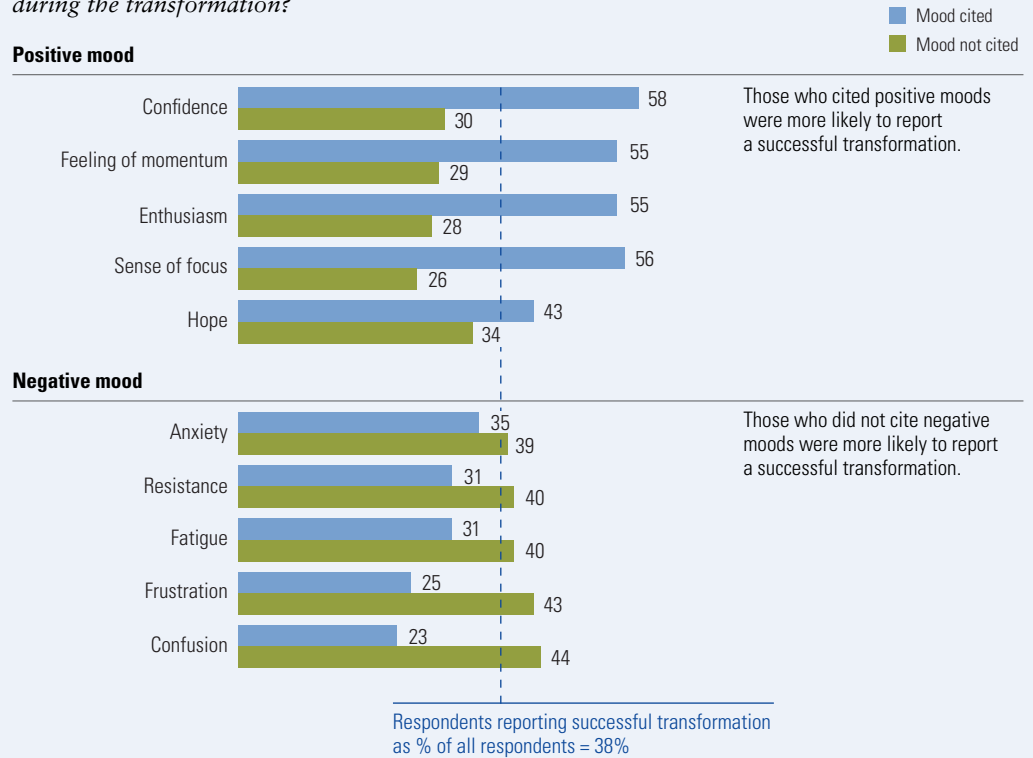
Negativity was generally common: half of the respondents said that they knew about feelings of anxiety among employees, while only a quarter reported coming across feelings of confidence. The generally positive moods (a sense of momentum, focus, enthusiasm, and confidence) were much more widespread in organizations that succeeded in mobilizing their energy than in those that did not. A clear correlation also exists between positive moods

and the overall success of a transformation (exhibit). More than half (58 percent) of the respondents whose organizations experienced a feeling of confidence had a completely or mostly successful transformation, compared with only 30 percent of the respondents from companies where a feeling of confidence had not been experienced.

Exhibit Think positive

Respondents who reported successful transformation as % of all respondents citing/not citing given mood¹

What characterized the mood in your organization during the transformation?



¹ All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; excludes respondents who answered 'don't know'; 'successful' defined as respondents who reported transformation was 'completely' or 'mostly' successful.

Source: June 2006 *McKinsey Quarterly* global survey of 1,536 business executives

even years. Executives therefore should consider what companies can do to create such an environment over the long haul. Our research identifies a strong correlation between success, the six catalysts mentioned earlier, and a number of related operational mechanisms.

Energy drives change . . .

The correlation between executives in the survey sample who claimed that their organizations had mobilized and sustained energy well and those who were most satisfied with the transformation's outcome is indeed eye catching. Only 29 percent of all the executives said that their organizations were completely or mostly successful in mobilizing organizational energy, but 55 percent of the executives who work for the top performers (those who reported the most success for their companies' programs generally) made that claim. With regard to sustaining energy, the gap is greater: 57 percent of executives at the top performers (compared with only 28 percent of the overall sample) said that their organizations were completely or mostly successful in mobilizing corporate energy (Exhibit 2, on the previous spread).

. . . and catalysts are crucial to its release

Energy doesn't simply appear out of thin air, of course. As our research confirms, active steps must be taken to generate and harness it.

We have long thought that the best way to start is to employ the six catalysts. Ways to mobilize energy include designing a rigorous program, articulating clear aspirations for the transformation, and creating highly visible manifestations of change. Sustaining that energy over the longer term requires strengthening leadership, focusing on underlying corporate health as well as immediate performance, and changing the mind-sets and behavior of employees.

The probability of success is far higher when organizations exploit each of the six catalysts (Exhibit 3). Among respondents who rated the overall exercise as completely or mostly successful, for instance, 59 percent said that their companies had developed a clear, effectively coordinated program design, as compared with only 27 percent of the respondents who rated the exercise as unsuccessful.

Mechanisms to mobilize and sustain energy

We looked at a few examples of the highly practical operational levers used by business leaders in a transformation in order to make the six catalysts a reality (Exhibit 4, on the next spread). Some of these mechanisms are geared to mobilizing energy, others to sustaining it.

Three examples

Among possible energy-mobilizing mechanisms, three particularly effective examples stand out. First, three-quarters of the executives who regarded their company's transformations as completely or mostly successful reported that those companies had defined clear goals for the first one to two years of the transformation. Of those respondents whose companies experienced unsuccessful transformations, less than half used this mechanism. Likewise, nearly two-thirds of the respondents who regarded their companies' transformations as completely or mostly successful said that these transformations had been presented as a compelling story, against only 43 percent of the respondents whose companies were unsuccessful. Finally, companies that offered an inspiring view of a better long-term future seemed to reap rewards.

As for sustaining energy, the effective mechanisms appear to be the integration of goals into key processes, the regular

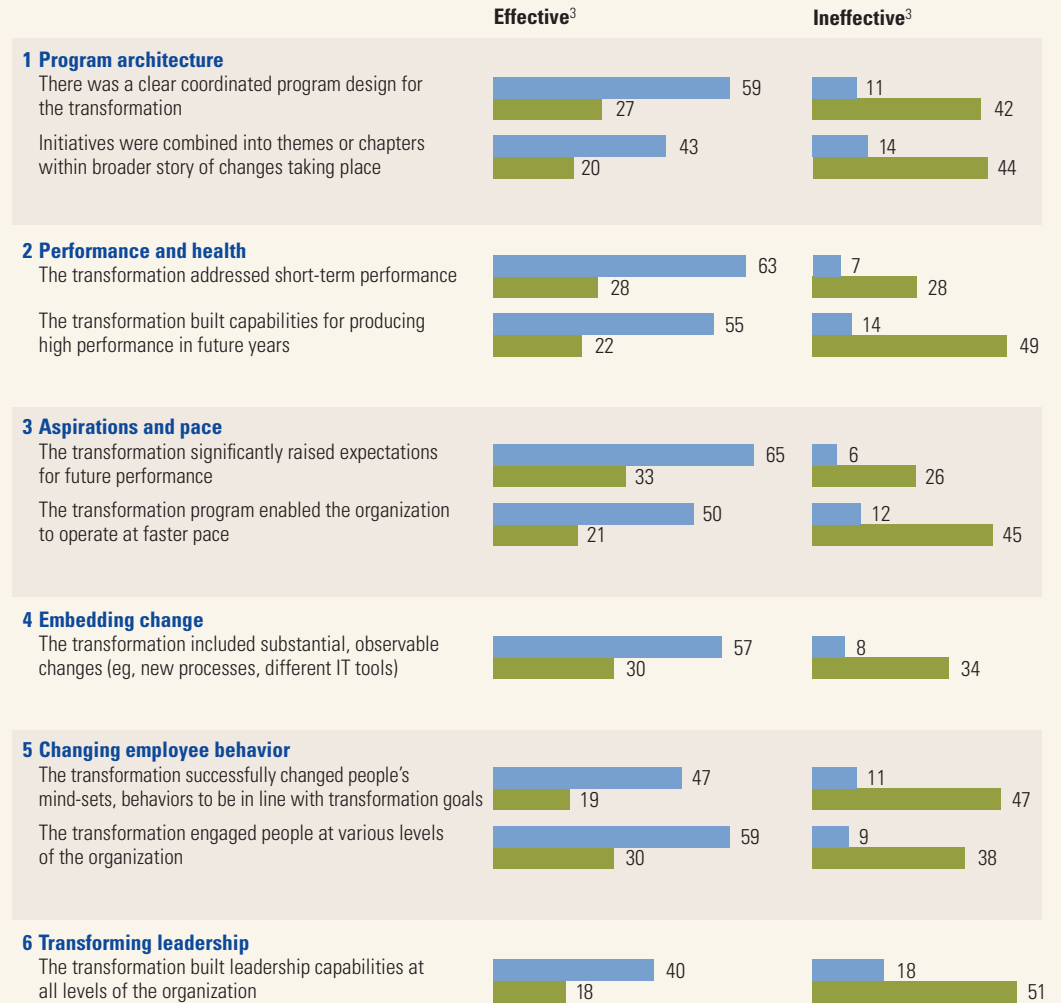
The 6 catalysts

% of respondents who have experienced a performance transformation within past 5 years who reported it as successful or unsuccessful¹

Respondents who report transformation was

- Successful²
- Unsuccessful²

How would you rate the effectiveness of your organization's transformation in each of these respects?



¹All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; excludes respondents who answered 'don't know'; or 'somewhat successful'; those who answered 'none of the above' are not shown.

²'Successful' defined as respondents who reported transformation was 'completely' or 'mostly' successful; 'unsuccessful' defined as respondents who answered 'somewhat,' 'mostly,' or 'completely' unsuccessful.

³'Effective' defined as respondents who reported organization was 'completely' or 'mostly' successful in respect to given aspect; 'ineffective' defined as respondents who reported organization was 'somewhat,' 'mostly,' or 'completely' unsuccessful.

Source: June 2006 *McKinsey Quarterly* global survey of 1,536 business executives

and public acknowledgment of success, and the building of new capabilities. In contrast, the use of a full-time implementation office or team seems to have a smaller effect. Perhaps simply having such a team is not enough; the important factors may be how it is staffed and what role it plays in a transformation.

The more, the better

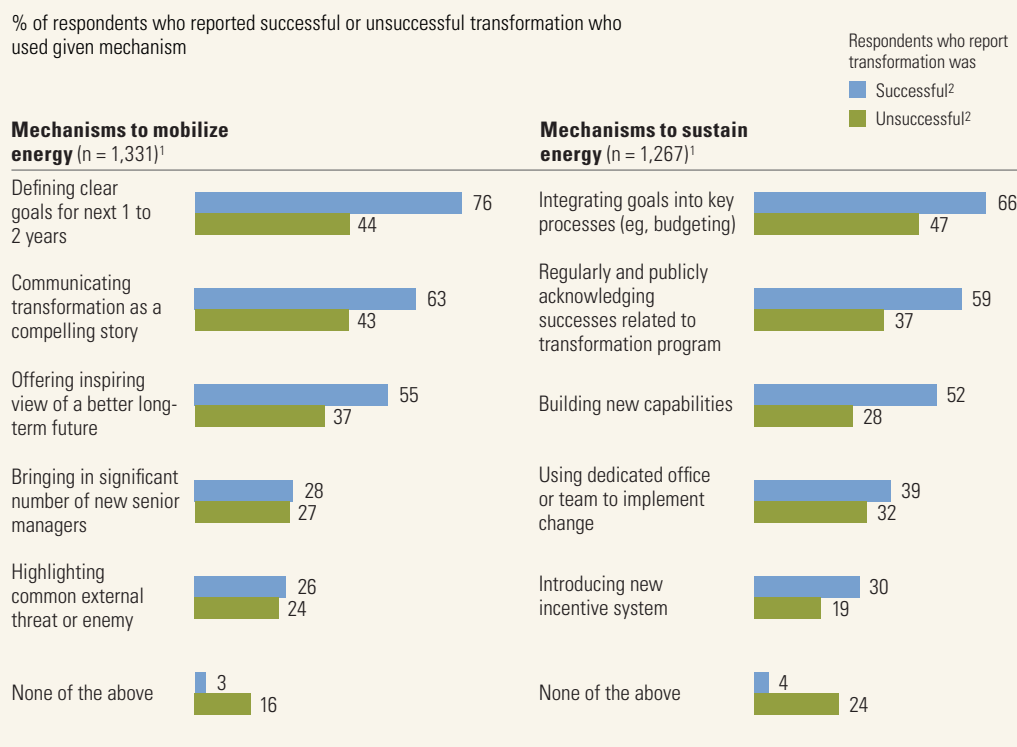
Apparently, the more mechanisms an organization uses to mobilize energy, the greater the momentum it builds up and the higher the probability of success. Of the respondents whose organizations had used four mechanisms, 52 percent said that the transformation had been completely or mostly successful, compared with 42 percent of those

whose organizations had used two mechanisms and just 25 percent of those whose organizations had used only one. The message is that using multiple mechanisms to mobilize energy pays off.

Our survey indicates the overwhelming importance of mobilizing and sustaining energy to make an organizational transformation succeed, as well as the need to apply the six catalysts as a way of making this energy flow and to engage practical mechanisms that support the catalysts. However, when all is said and done, transformation programs succeed only when they change the way people work and behave. Encouragingly,

Exhibit 4

Comparing mechanisms



¹ All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; excludes respondents who answered 'don't know'; n = number of respondents who selected mechanism and varies per mechanism.

² 'Successful' defined as respondents who reported transformation was 'completely' or 'mostly' successful; 'unsuccessful' defined as respondents who answered 'somewhat,' 'mostly,' or 'completely' unsuccessful.

Source: June 2006 *McKinsey Quarterly* global survey of 1,536 business executives

survey respondents whose companies used the six catalysts also reported that employees had been moved to change the way they work in line with the transformation goals. While every leader needs to decide individually what will most effectively transform an organization's people, it is clear that energy must be at the heart of any successful approach. ■

¹ We define a transformation as a conscious transition (based on fundamental shifts in ambitions, mind-sets, capabilities, and processes) to a sustainable way of working at a significantly higher level of business performance and health.

² This article draws on the concept of organizational energy, developed by Professor Heike Bruch, of the Institute for Leadership and Human Resource Management, University of St. Gallen, Switzerland. It also includes further development based on a series of recent interactions with Professor Bruch; Professor Andrew Pettigrew, University of Bath School of Management (United Kingdom); Professor Michael L. Tushman, Harvard University; and Professor Veronica Hope-Hailey, Cass Business School, City University, London.

³ *The McKinsey Quarterly* conducted the survey in June 2006 and received 1,536 responses from a worldwide representative sample of executives at publicly and privately held businesses across a full range of industries, as well as nonprofit and government organizations.