McKinsey & Company

Coming out Stronger

Winter readings

A selection of articles
by McKinsey & Company

Dec 2020

Winter readings: Coming out Stronger

Dear reader,

This holiday period marks the end of a year that was exceptional in many respects. The uncertainty that defined 2020 is likely to continue for some time still. We hope that the holiday season brings you time for rest and reflection. With this in mind, we have curated a selection of articles to provide you with inspiration for the year to come.

We hope this collection of articles, written by McKinsey experts and practitioners, can fuel your reflection. As always, don't hesitate to contact us if you have any questions or thoughts.

On behalf of the partners of McKinsey & Company Belgium-Luxembourg, we wish you a relaxing and inspiring year-end period.

Azra Pravdic

Brent Hooper

Deepak Mahadevan

DEEPAK MAHADEVAN

Didier Casanova

Frank Bekaert

Frédéric Panier

Frédéric Vandenberghe

Frédéric Van Weyenbergh

Gregory Schor

Hemant Ahlawat

Jérémie Sneessens

Kathleen Martens

Kedar Naik

Ken Somers

Louis Muyldermans

Marc Niederkorn

Marie-Paule Laurent

Michel Van Hoey

Mieke Van Oostende

Nicolas Denis

Nicolas Magnette

Olivier Denecker

Olivier Noterdaeme

Peter De Boeck

Pieter Reynders

Quentin Jadoul

Ruben Schaubroeck

Ruben Verhoeven

Sigurd Mareels

Stefan De Raedemaecker

Thibaut Dedeurwaerder

Thomas Delaet

Tom Hamers

Thibaut Dedeurwaerder

Tom Pluym

Vania Pashova

Vincent Van Lierde

Yashaswi Gautam

Yves Slachmuylders

Content

The CEO moment: Leadership for a new era 02

More than a mission statement: How the 5Ps embed purpose to deliver value 14

Doing vs being: Practical lessons on building an agile culture 24

How to become ‘tech forward’: A technology-transformation approach that works. 32

Unlocking enterprise efficiencies through zero-based design 40

Addressing Climate Change in a post-pandemic world 48

The most fundamental skill: Intentional learning and the career advantage 54

The digital-led recovery from COVID-19: Five questions for CEOs 62

The CEO moment: Leadership for a new era

Challenged by the global pandemic, CEOs have made four shifts in the way they lead that hold great promise for both companies and society. Will they build on this unique moment, or return to the ways of the past?

By Carolyn Dewar, Scott Keller, Kevin Sneader, and Kurt Strovink

COVID-19 has created a massive humanitarian challenge: millions ill and hundreds of thousands of lives lost; soaring unemployment rates in the world's most robust economies; food banks stretched beyond capacity; governments straining to deliver critical services. The pandemic is also a challenge for businesses—and their CEOs—unlike any they have ever faced, forcing an abrupt dislocation of how employees work, how customers behave, how supply chains function, and even what ultimately constitutes business performance.

Confronting this unique moment, CEOs have shifted how they lead in expedient and ingenious ways. The changes may have been birthed of necessity, but they have great potential beyond this crisis. In this article, we explore four shifts in how CEOs are leading that are also better ways to lead a company: unlocking bolder ("10x") aspirations, elevating their "to be" list to the same level as "to do" in their operating models, fully embracing stakeholder capitalism, and harnessing the full power of their CEO peer networks. If they become permanent, these shifts hold the potential to thoroughly recalibrate the organization and how it operates, the company's performance potential, and its relationship to critical constituents.

Only CEOs can decide whether to continue leading in these new ways, and in so doing seize a once-in-a-generation opportunity to consciously evolve the very nature and impact of their role. Indeed, as we have written elsewhere, part of the role of the CEO is to serve as a chief calibrator—deciding the extent and degree of change needed.[1] As part of this, CEOs must have a thesis of transformation that works in their company context. A good CEO is always scanning for signals and helping the organization deliver fine-tuned responses. A great CEO will see that this moment is a unique opportunity for self-calibration, with profound implications for the organization.

We have spoken with and counseled hundreds of CEOs since the pandemic first hit. It is clear to us that they sense an opportunity to lead in a new, more positive and impactful way. If a critical mass of CEOs embraces and extends what they have learned during the pandemic, this CEO moment could become a CEO movement—one that is profoundly positive for the achievement of corporate, human, and societal potential. As Rajnish Kumar, chairman of the State Bank of India, reflects, "This will be a true inflection point. I think that this pandemic, in terms of implications, will be as big an event as World War II. And whatever we learn through this process, it must not go to waste."

[1] See Carolyn Dewar, Martin Hirt, and Scott Keller, "The mindsets and practices of excellent CEOs," October 2019, McKinsey.com.

Aspire 10x higher

The global health crisis and its resulting business dislocations have unlocked change at a pace and magnitude that has made even the boldest and most progressive of CEOs question their assumptions. From what we have observed, there are at least two related areas that are ripe for innovation: goal setting and the operating model.

Think bigger and faster

During the pandemic, many organizations have accomplished what had previously been thought impossible. Cincinnati Children's Hospital Medical Center (CCHMC), for example, scheduled 2,000 telehealth visits in 2019. It is now handling 5,000 a week—a goal that, prior to the pandemic, it had estimated would be accomplished several years from now and only after a large-scale transformation. At Dubai-based Majid Al Futtaim (MAF), attendance at movie theaters fell (as a result of government-mandated closures) while demand for its online supermarket soared; in two days, the company retrained 1,000 ushers and ticket sellers to work for the online grocer. Without the crisis, that speed and magnitude of reskilling to leverage talent across MAF's portfolio of companies would never have been contemplated. Best Buy, which had spent months testing curbside pickup at a handful of stores, rolled it out to every store in just two days. In four days, Unilever converted factory lines that were making deodorants into ones making hand sanitizer. Life insurers have wrestled ingeniously with a unique COVID-19-related problem, says Jennifer Fitzgerald, CEO of Policygenius, an online insurance broker: "Some consumers don't want the examiner in their house. We've seen a lot of flexibility from carriers. Some have moved quickly on the electronic medical-record side. We've also seen carriers increase the face amount that they're willing to underwrite using data instead of the medical exam. . . . Overall, I think this has pushed the industry to adopt some changes much more quickly than it otherwise would have." In a week, companies went from having 100,000 people working in offices to having 100,000 people working from home—a shift requiring systems and policy transformation that under normal circumstances might have taken years.

Of course, the unprecedented scale and speed of the pandemic have created "burning platform" impetus for these feats, but it is still remarkable that organizations have been able to make it happen. These achievements have come partly from people working faster and harder, although this is not the whole story, and many CEOs are taking the long-term view. Says Guardian CEO Deanna Mulligan, "We've been worried about our broader team in general because they've been working very hard. We've found that people are substituting their commuting time with working. Our IT guys are telling us that they're getting three extra hours a day out of the coders. We're mandating across the whole company that they can't work after a certain hour at night or that they have to take vacation because nobody's taking their vacation days; they don't want to waste their time off hanging around at home. But it's going to be this way for a while, and we don't want them to go a whole year working at this pace without a break."

CEOs are recognizing that the barriers to boldness and speed are less about technical limits and more about such things as mindsets toward what is possible, what people are willing to do, the degree to which implicit or explicit polices that slow things down can be challenged, and bureaucratic chains of command.

Realizing this, CEOs are appropriately celebrating the magnitude of what their organizations have achieved and considering how to stretch for more. Michael Fisher, CEO of CCMHC, thinks that going forward telehealth will account for up to 50 percent of visits in certain ambulatory settings, and perhaps 30 percent of visits overall. Before COVID-19, less than 1 percent of visits were telehealth. Says Fisher, "I keep pushing myself and our team to think about how we use this inflection point to reimagine our potential together, as opposed to allowing our organization to just go back to the comfort of 'Let's do what we're doing.'"

Research by our colleagues in McKinsey's Strategy and Corporate Finance Practice has long shown that CEOs making bold moves is vital to achieving outstanding performance, which itself is elusive—only one in 12 companies goes from being an average performer to a top-quintile performer over a ten-year period.[2] Making one or two bold moves more than doubles the likelihood of making such a shift; making three or more makes it six times more likely. Our research has also shown that CEOs who are hired externally tend to move with more boldness and speed than those hired within an organization, partly because of the social pressures that constrain internally promoted CEOs. As a result, we often advise CEOs who are promoted from within to ask themselves the question that famously prompted Andy Grove and Gordon Moore to focus Intel on microprocessors: "What would an outsider do?" Given the performance we have seen during the pandemic, we would now encourage CEOs to ask themselves and their teams a follow-on question: "What would your COVID-19 answer be?" The power that these frames of reference hold, to reimagine the possible and recalibrate what can be achieved, is profound.

Other questions for CEOs to reflect on to help calibrate their aspirations include:

1. Where should we be aspiring 10x higher and/ or 10x faster?

2. What beliefs or long-held assumptions do I need to explicitly reset in the organization and with stakeholders to achieve this?

3. What do we say no to, or stop doing, to create the additional space to go bigger and faster?

Zero-base how work gets done

In addition to the mindset shifts mentioned earlier, there are any number of more tangible reasons why companies have been able to drive this kind of progress so quickly. Some CEOs, such as Vivek Sankaran of Albertsons and Lance Fritz of Union Pacific, have noted that remote work and bans on travel have opened up banks of time that give them the opportunity to focus more on what really matters. As Natarajan Chandrasekaran, chairman of the Tata Group, says, "[As a consultant,] I used to fly to meet a customer, even if it took all day or more, for a one-hour meeting. Now I know that the amount of time that goes into traveling is not necessary. That's the way people used to live, but I think that that will come down now." Unilever CEO Alan Jope tells us, "We're all discovering what a capacity trap travel is. I feel a quite calming sense of control over my own time." Others, however, like BlackRock CEO Larry Fink, discovered early in the crisis that not having travel time took from them valuable reflection, focus, and restoration time. Fink reminds us that downtime at the water cooler with colleagues and travel by oneself can be creative openings and outlets for new thinking. Many CEOs have since adapted by booking "flight time" into their schedule so as to avoid spending all day, every day, on videoconference meetings. In either case, the COVID-19 experience has made it clearer than ever that CEOs must be extremely intentional about how they use their time.

Beyond personal time and energy management, organizational adjustments that CEOs have made to decision making and execution hold great promise for the future. Arvind Krishna, the new CEO of IBM, tells us that his company has recently relied on a two-speed model of decision making. "Your CMT [crisis-management team] will handle all of the stuff around health, safety, employee confidence, and client confidence," says Krishna. "That lets the others focus on running the business. I think it's a reasonable model for three to nine months. The bigger question is, 'How do we learn from this and evolve better for the future? What structural changes do we make?'" One significant aspect of structural change that most CEOs are grappling with is how much of a physical footprint their companies need, now that the ability to work virtually and productively has, by and large, been proved.[3] If companies do move to a more virtual model (50 percent or more virtual, up from 20 percent, for example), what does that mean for team building, compliance, distribution channels, and so on?

The magic of the moment is that both the CEO and the organization's operating models have been unfrozen, perhaps more than in any time in a generation. There is an opportunity to reset how work gets done in ways that make it multiple times more efficient and effective—free of the burden of historical norms. Our colleagues have found, in their research on innovation "essentials," that breakthrough moments arise when leaders dramatically raise their sights, and then commit

[2] See Chris Bradley, Martin Hirt, and Sven Smit, "Strategy to beat the odds," McKinsey Quarterly, February 2018, McKinsey.com
[3] Andrea Alexander, Aaron De Smet, and Mihir Mysore, "Reimagining the postpandemic workforce," McKinsey Quarterly, July 2020, McKinsey.com.

to the operating implications (particularly with difficult resource-allocation and portfolio choices) needed to achieve those aspirations.[4] Operating-model issues loom large for CEOs as individuals, too: our research shows that CEOs who focus their scarce time doing work that only the CEO can do, and who manage their energy with the same rigor and discipline with which they manage their time, deliver higher performance.

As CEOs begin to seize the unique opportunity at hand to recalibrate their personal, team, and company operating models, they should reflect on the following questions:

- How have we worked differently to enable the impossible to happen during the pandemic (including our decision making, processes, resource allocation, communication, and location)?
- What learnings and new muscles should we bring forward into the organization for the future?
- How will this change my day-to-day as I run the company as CEO?

Elevate 'to be' to the same level as 'to do'

In a moment of crisis, everyone looks to their leader. CEOs have felt this acutely during the pandemic. David Schwimmer, CEO of London Stock Exchange Group, says, "People are looking to me for a different kind of leadership. In a normal environment, it's about business leadership and setting up strategy, as well as culture and people decisions. In this environment, it's about helping people maintain morale. It's about people being prepared for whatever may come in the face of uncertainty." As a result, leaders have shown up differently and have starting using a different lens to take notice of how members of their senior team show up. We see both of these areas as candidates for permanent change in the future.

Deliberately choose 'how I show up'

Perhaps the most notable feature of how CEOs are showing up differently is that they are showing more of their humanity. As Paul Tufano, CEO of AmeriHealth Caritas, explains, "This has been a sustained period of uncertainty and fear, but also a great opportunity to forge a stronger, more cohesive and motivated workforce. If CEOs can step into a ministerial role—extending hands virtually, truly listening, relating to and connecting with people where they are—there is enormous potential to inspire people and strengthen bonds and loyalties within the company." Adds Alain Bejjani, CEO of MAF, "The people you are leading have big expectations of you. They want you to be perfect and often forget that you are human. But the more human you are with them, the more trust and empathy they lend to you. They understand you better. That gives you the ability to do so much more, as people give you the benefit of the doubt."

Many CEOs we have spoken with have been positively surprised that bringing more of themselves into the workplace has created connection and motivation. Says Steve Collis, CEO of AmerisourceBergen, "One of the smartest things that we did the very first week was to set up a daily executive-management meeting at 5:00 p.m. That's important from a decision-making point of view, but it's even more important for touching base and showing empathy. We're now in each other's homes—you're seeing my study, and we've met each other's families. . . . I asked all my direct reports, 'Is there someone who wants me to reach out to someone who's doing a great job or someone who's struggling? Maybe someone who has a relative with COVID-19?' Sometimes all that's needed is a word of encouragement to show you care. It's been a great gift to be able to do that for the people in AmerisourceBergen."

Showing up isn't only about opening up more of oneself to others, however; it's also about being the organization's rock during a time that's fraught with anxiety and uncertainty. "[Employees] need to see that their leadership is vulnerable, empathetic, and making decisions in accordance with our values, which I'd better be the living proof of," says Lance Fritz, CEO of Union Pacific. "Our people are expecting me to be transparent, to have a grip on the situation, and to be reasonable about what I do know, what I don't know, and what we're doing about it."

Michael Fisher of CCMHC has begun to

[4] See Marc de Jong, Nathan Marston, and Erik Roth, "The eight essentials of innovation," McKinsey Quarterly, April 2015, McKinsey.com.

operationalize these insights by being explicit about what is on his “to do” and “to be” lists. As Fisher explains: “I never purposefully gave thought to whether there’s a way to be really intentional about how I want to show up every day. So I’ve added a ‘to be’ list to my repertoire. Today, for example, I want to be generous and genuine. I hope I’m that way every day. But today, I want to make sure it stays top of mind. On a different day this week—and look, you can see it here in my calendar—I knew that part of my job was to be collaborative and catalytic. So I pick out two qualities, two kinds of ‘to be,’ every morning as part of my normal routine.”

Choosing how one wants “to be” is yielding concrete results. Deanna Mulligan, CEO of Guardian, says, “Like many New York financial-services firms, our culture and corporate communications tend to be a bit more formal. Pre-COVID-19, when I was preparing for a company-wide video or speech, that formality, in the form of rehearsals and professional staging, was standard practice. That culture had to change overnight because everyone’s at home. Now, I’m more casually dressed, and it’s more intimate and personal. I’ve made some of my videos outside with the dog, something that we’d never have thought to do before. The feedback has been terrific. Our employee engagement scores, confirmed by regular pulse surveys, have been consistently on the rise since going remote.”

By reflecting on the following questions, CEOs can use this moment as an opportunity to recalibrate how they show up every day:

- What qualities am I bringing to being and showing up today that I should continue to bring into the future?
- Going forward, is there an opportunity for me to manage a “to be” list with the same rigor as my “to do” list?
- How, practically, should I hold myself accountable? How will I ensure that others help hold me accountable?

Recalibrate how I expect leaders and employees to show up

Just as the “being” side of the CEO has come to the fore during the crisis, the same is true for other leaders in the organization. At his recent top-300 executive meeting, Verizon Communications CEO Hans Vestberg shared a visual showing how he’s spent his time over the past three months during the crisis and how his energy has changed: “Ultimately, my job is to give energy, empowerment, and vision to the organization. If I’m down, I’m not really using the only asset I have as a leader. And I have bad days like anybody else. I tell my leaders, ‘You need to self-assess so you know what you’re good at, and double down on that in your own leadership.’”

Several CEOs have told us that they have learned a lot about their leadership teams during the pandemic. “This environment offers some terrific empirical evidence,” says Union Pacific’s Lance Fritz. “This is a great environment if you’re prone to saying, ‘Not in my sandbox.’ You can really shut others down. It’s a challenging environment if you’re prone to be inviting, but if you can do it in this environment, you’re probably going to do it in the normal world, too. I’m seeing behaviors like that bubble up, and it’s very informative.”

CEOs are noticing aspects of their people that had always been there but perhaps had gone overlooked or weren’t considered important until the pandemic helped make those characteristics more pronounced. Most job descriptions list what is expected in terms of skills and experience, but during COVID-19, CEOs have seen the critical importance of other attributes and qualities of character. As Alain Bejjani, CEO of MAF, states, “I think we’re moving from a world of specialists toward a world of generalists. Leaders need to adapt to all kinds of different circumstances, and generalists can succeed when life is so fast and volatile. We will need more generalists to lead in disruptive times, whether they’re caused by technological shifts or this unimagined pandemic.”

A conscious, deliberate choice to adjust people expectations to include “to be” as well as “to do” considerations will change how CEOs and their organizations select, train, coach, recognize, and reward leaders. As CEOs decide how to make this shift permanent, they, together with their chief human-resources officer, should consider the following:

- What will I look for differently in leaders as a result of what I’ve learned during the pandemic?
- What actions should I take in the near term to reinforce what “being” attributes will be of elevated importance going forward?

- How can these attributes be hardwired into our people model to ensure they are institutionalized in how we develop, reward, and promote?

Fully embrace stakeholder capitalism

Over the past few years, many CEOs have begun to embrace the idea that their companies' obligations to shareholders should not come at the expense of other stakeholders—that is, employees, customers, the community, suppliers, and society. The most public affirmation of the idea came just last summer, when 181 CEOs committed to the idea by signing on to the US Business Roundtable's "Statement on the purpose of a corporation." The pandemic has brought this issue to the fore in powerful ways, prompting many CEOs to gut check what they really believe and take action accordingly—something we believe all CEOs would benefit from, given the moment at hand.

Decide what you really believe

The COVID-19 pandemic has emphatically affirmed the interconnection and interdependence of businesses with their full range of stakeholders. As Robert Smith, CEO of Vista Equity Partners, a private-equity firm with some 60 companies in its portfolio, says, "At the beginning of COVID-19, CEOs zipped right to thinking about shareholders above everything. It was almost a muscle memory. But then they realized that at every turn they were bumping up against different stakeholders: partners, governments, suppliers, employees. They were experiencing the interconnectedness of stakeholder capitalism in everything they did."

CEOs are being called upon to make decisions they have never been trained for. Few have any expertise on the general health of their employees, yet they are called upon to decide when it is safe to return to the office. Tough decisions with profound human consequences are confronting CEOs every day. CCHMC's Michael Fisher told his board leaders that he was willing to repurpose a beautiful, relatively new satellite hospital already being fully used to care for children to instead serve adult patients exposed to COVID-19, if that's what the community needed. "That would not have been a popular decision with some important stakeholders, for a range of reasons, and, thankfully, we haven't had to do it. But if that was the right way for our community to respond to this crisis, I would have been ready to do it again." Throughout the crisis, Fisher says, "What went through my mind was the range of issues that needed to be dealt with—and the range of responsibilities that we had to patients, to families, to our employees, and to the community. How would we take this moment and not only preserve trust with stakeholders but also strengthen it?"

Starting with the needs of their employees, stakeholder capitalism moved from an idea talked about at conferences to a rapid-sequence decision-making reality for many CEOs. Unilever's Alan Jope tells us, "We realized after the event that we had followed our multistakeholder model. Week one was all about our employees. We secured everyone's jobs and income for three months. The next week, we started thinking about our community response. We donated products, got into a big partnership for handwashing, and made €500 million available as working capital to pay small suppliers early. And after we had taken care of people and the community, that's when we thought fundamentally about the business, about the fact that we make things and collect cash for them. That's when we secured supply lines and built extra resilience into our supply chain."

Research has made it clear that tending to multiple stakeholders and managing for the long haul is good for not only stakeholders but also the company.[5] Exposure to customer and stakeholder-related risks are minimized, and new opportunities present themselves. For example, 87 percent of customers say that they will purchase from companies that support what they care about. Ninety-four percent of millennials say that they want their skills to benefit a cause. Sustainable investing has grown 18-fold since 1995. These facts are not new to CEOs, but the COVID-19 pandemic has laid bare the profound interconnectedness between businesses and the broader world in which they operate. Furthermore, our early research indicates that consumers will

[5] See "Where companies with a long-term view outperform their peers," McKinsey Global Institute, February 2017, McKinsey.com; and Marc Goedhart and Tim Koller, "The value of value creation," McKinsey Quarterly, June 2020, McKinsey.com.

be even more committed to social responsibility coming out of the pandemic.

In this context, we encourage CEOs to reflect on issues such as:

- On what stakeholders should I explicitly recalibrate my personal focus and our company's overall focus?
- How would I convince my shareholders that the long-term benefits of shifting the company's focus outweighs the short-terms costs?
- Do my answers to the questions above implicitly show that I'm not yet ready to embrace stakeholder capitalism, and, if so, what is holding me back from having true conviction?

Once you have made the decision, make it happen

Determining how to manage the short-term costs of stakeholder capitalism practically is one of the most daunting challenges for CEOs who have chosen to fully embrace the ideal. Consider, for example, the issue of job reductions in the face of declining revenues. It may be the right thing to do for shareholders in the near term, but it can also be catastrophic for employees who lose their jobs at a time of human-health and economic crisis.

At Union Pacific, rail traffic dropped during the early days of the pandemic, although it has since slowly recovered. As CEO Lance Fritz explains, "I made the conscious decision to spread the impact across the whole organization, so that our frontline professionals—the transportation employees, mechanical employees, and engineering employees—wouldn't be the only ones feeling it. Every manager is taking a one-week unpaid leave of absence every month [for four months]. Every board member and executive has had the ir pay docked 25 percent for those four months. We don't need to do that for liquidity. We need it to demonstrate to the entire workforce that we're in this together. We're not riding the backs of our frontline team—or doing anything that would appear that way. We are keeping an open line of dialogue with our frontline team and doing our best to listen."

Important stakeholder questions are also intrinsic to CEO decisions regarding returning to the workplace. On one hand, the economic downturn is having a catastrophic impact on many of the most vulnerable groups in our society. The sooner economic activity can resume, the sooner unemployment can be addressed and goods and services can be delivered to those who need them. At the same time, the more that people are brought together, the higher the risk that lives are put in jeopardy.

CEOs acknowledge that these and many other multistakeholder decisions become more difficult the worse your business gets. Says Fritz, "When the chips are down, you're going to find out just how strong your values are." Robert Smith puts it simply: "When the bills come due, we'll see what CEOs do—it is not guaranteed that there has been a full shift to stakeholder capitalism yet." Still, more CEOs are stepping out in front vocally, making their views known on topics ranging from values to ethics. Employees, customers, and stakeholders expect a CEO to articulate where the company stands on critical issues—it's increasingly becoming an expectation of the CEO role. Some, such as Larry Fink, expect that this shift will continue to gain strength: "Going forward, there is going to be a lot more focus on society, customers and clients, family, and employees." The moment of the pandemic offers CEOs the opportunity—and increases their obligation—to acknowledge this reality.

CEOs who believe in the opportunity of stakeholder capitalism should ask themselves the following questions to help turn beliefs into action:

- Based on the stakeholder interests that I need to recalibrate, what practically must look different in the next six, 12, and 18 months (including the frequency and nature of interactions, management processes, and resource allocation)?
- How and when will I reset expectations with my shareholders?
- How will we measure progress as we transition?

Harness the real power of peer networks

Here's one of the most noteworthy changes we have seen during the pandemic: CEOs are talking to one another much more and are seeking to do so at a much greater rate. Says Lance Fritz, "Two months ago, the business community was thinking, 'If we don't figure out a thoughtful path, we could wallow in this for a long, long time.' So CEOs started thinking, 'Let's learn from each other. Let's hold hands.' There's even a little bit of commiseration. I haven't put enough value on the ability to be with a couple of other CEOs on one of these Zoom calls, or on the phone, and talk about any number of things that are unique that you can't talk to anybody else about." We believe that having CEOs spend more time laterally will prove useful not only for responding to the current pandemic, but also for addressing emergent issues and unlocking higher levels of business performance, innovation, and multistakeholder impact in an ever more complex and uncertain world.

Invest further in building relationships with other CEOs

CEOs are communicating more, and expanding their networks, in part because only another CEO confronting the pandemic can fully identify with today's leadership challenges. As Laxman Narasimhan, CEO of Reckitt Benckiser, puts it: "I find talking to other CEOs about how they are handling the crisis extremely helpful—this shared experience connects us and gives me added perspectives." Says AmerisourceBergen CEO Steve Collis, "From an external perspective, I've been a beneficiary of amazing calls with other CEOs who have been willing to share their knowledge. This has been such a growing experience."

It's no surprise that CEOs are seeing the benefits of connecting in new ways during this crisis. The urgency of the moment has given focus and urgency to the nature of the dialogue. Kate Walsh, CEO of Boston Medical Center, started talking to her peers early in the pandemic, when Boston was becoming one of the country's COVID-19 hot spots. "Hospital CEOs realized we were chasing each other around the supply chains," says Walsh. "We began to coordinate, so at least we could let people know that we'd give everybody a mask when they come to work on Monday morning. It became almost a daily call [with other hospitals] as we tried to figure out how to respond to the volume of cases." Leaders are less focused on showing up to large group meetings and putting on a corporate face that suggests "We've got it under control." Instead, they are intent on accelerating problem solving together by building on one another's ideas, iterating novel solutions to use in the workplace, trading notes, and moving forward having learned what works best. They are also encouraging one another to conduct bold experiments, taking advantage of the current environment to do A/B testing on a massive scale and trying new ways of operating virtually and digitally.

In order for CEOs to leverage such interactions in the future and accelerate impact on shared challenges, they will have to continue to approach such opportunities—both formal and informal—with humility, a learning mindset, and an open-minded commitment to ongoing development. The benefits of doing so are more significant than one might imagine: role modeling this has the potential to create more open learning organizations for companies, and to identify the cross-industry analogies that often provide the touchstone for innovation. Without the pressure of a crisis, however, leadership resolve will be required to maintain such an approach—research makes it clear that none of this is easy for people in powerful roles.[6]

In light of the newfound connectivity among CEOs within and across industries happening in this moment, CEOs will benefit from reflecting on the following questions:

- What peer networks should I continue or create beyond the crisis (in particular, those in analogous but not identical situations)?
- What makes for a valuable peer interaction, and how can I ensure that these conditions are in place when I interact with other CEOs?

[6] See Jennifer Garvey Berger and Zafer Gedeon Achi, "Understanding the leader's 'identity mindtrap': Personal growth for the C-suite," McKinsey Quarterly, January 2020, McKinsey.com.

- Beyond role modeling, how can I encourage my senior team and other leaders to enrich their own networks and the velocity of learnings with their peers across industries?

Leverage networks to tackle a broad set of issues

CEO networks also have a unique potential to enable some of the other things we have talked about thus far in this article. CEOs in noncompetitive industries are well positioned to both challenge and support their peers in aiming higher; in sharing learnings, best practices, and encouragement regarding elevating "to be" to the same level as "to do"; and in working through how to fully embrace stakeholder capitalism.

The pharmaceutical industry's "10x" rush to counter COVID-19 bears witness to this. As Christophe Weber, CEO of Takeda Pharmaceuticals, explains, "We started the development of a plasma-derived medicine for COVID-19 by ourselves. But our head of Plasma-Derived Therapies realized that if we formed an alliance with other plasma companies, we could go much faster and would have the potential to produce a product on a bigger scale. So now we have a pro bono, not-for-profit alliance. And we have a very good alliance with other major plasma companies, smaller ones, and also nonplasma companies, like Microsoft. When everybody saw that it was a true alliance to do good for society, we were able to get the convergence of many companies."

This interest in shared success can create wins for multiple stakeholders. "Part [of the adjustment to COVID-19] is focusing even more on partnering with and supporting the community," says CCHMC's Fisher. "For example, CEOs of major employers, including P&G, Kroger, Fifth Third Bank, Cincinnati Children's, and others, initiated a task force to focus on a robust and inclusive restart of our economy and region. Being part of those things is more important than ever to me, our institution, and our community."

Alain Bejjani of MAF frames the potential for CEOs to work together in ways that change the world for the better. Says Bejjani, "Employers enjoy the highest level of trust compared to governments and even NGOs [nongovernmental organizations]. This capital of trust is very important and something CEOs should leverage going forward. We should be at the bridgehead for change. Governments cannot win, cannot de al with the complex issues of our time, without business. Business, in turn, cannot win without government and civil society." As COVID-19 has made clear, changing the world for the better is good not only for society but also for business.

As CEOs look forward to decide what issues to tackle with their peers, they can build on their pandemic experience by considering the following questions:

- On what issues has peer connectivity most benefited my business, now and in the future?
- On what societal issues (such as inequity and racism, climate change, porous social safety nets, weakened healthcare systems) should peer connectivity be directed, and how can I maintain the same level of intensity that I did during the pandemic?
- What issues will I take personal leadership on and convene others around?

COVID-19 has brought with it a pressurized operating environment the likes of which few of today's CEOs have ever experienced. It has necessitated a reappraisal of how much is possible and in what time frames. It has forced personal disclosure at levels previously considered uncomfortable and, in doing so, has increased awareness of the importance of how leaders show up personally. It has shined a light on the interconnectivity of stakeholder concerns. It has prompted a level of substance-based, peer-to-peer CEO interaction that has elevated all involved. Ultimately, it has "unfrozen" many aspects of the CEO role, making possible a re-fusing of new and existing elements that could define the CEO role of the future.

When the pressure decreases, will CEOs go back to operating as they did before? Or will the role at the top be thoughtfully reconsidered and reconceived by those who occupy it? Clearly, not every CEO will choose to make permanent the four shifts we've discussed. The more that CEOs do, however, the more the moment has the potential to become a movement—one that could create higher-achieving, more purposeful, more humane, and better-connected leaders. Judging by the evolution underway, many companies and societies stand to benefit.

ABOUT THE AUTHOR(S)

Carolyn Dewar is a senior partner in McKinsey's San Francisco office, **Scott Keller** is a senior partner in the Southern California office, **Kevin Sneader** is McKinsey's global managing partner and is based in the Hong Kong office, and **Kurt Strovink** is a senior partner in the New York office.

The authors wish to thank Monica Murarka for her contributions to this article.

More than a mission statement: How the 5Ps embed purpose to deliver value

Your company's purpose strengthens resilience and creates value—if it's genuine. A new framework highlights a detailed approach to embedding purpose throughout your organization.

This article was a collaborative, global effort among Sebastian Leape, Jinchen Zou, Olivia Loadwick, Robin Nuttall, Matt Stone, and Bruce Simpson.

We've all seen it: companies that have the "it" factor, an enthusiasm and passion that lights up employees, delights customers, and shines for investors. It's not just the company's warmer fleece, or a more delicious ice cream, or even a breakthrough technology. And it's so much more than just a mission statement. It's purpose. Purpose answers the question, "What would the world lose if your company disappeared?" It defines a company's core reason for being and its resulting positive impact on the world. Winning companies are driven by purpose, reach higher for it, and achieve more because of it. Competitors wonder where they can get some of that magic and how they might sprinkle it on.

If that's your expectation—that purpose can be added easily to your mix—get ready to be disappointed. A superficial approach to purpose doesn't work. In fact, it can do considerable harm, opening up your company to accusations of inauthenticity or "purpose-washing," turning off customers or driving them away completely, and disaffecting employees up and down your organization. Poor outcomes follow when purpose is a patch job.

Yet the positive corollary also holds: companies with a genuine, lived purpose radiate authenticity and do well by doing good. Customers, suppliers, partners, and investors recognize the value proposition. Senior leaders allocate capital and resources with purpose in mind. And employees think about purpose all the way, making it a part of their decision making as a matter of course. Building those dynamics doesn't come easily. It requires leaders to embed purpose throughout the organization. As we've described before, purpose must connect with your company's "superpower"—its unique ability to create value.[1] Purpose is not the same as ESG (see sidebar, "Purpose, ESG, and the 5Ps"). Purpose is your company's raison d'être.

In this article, we describe a framework that organizations can use to make purpose real, steer clear of potential vulnerabilities or blowback, and help unlock meaningful value. We call this framework the 5Ps.

[1] "Purpose: Shifting from why to how," McKinsey Quarterly, April 2020, McKinsey.com

A framework for purpose: The 5Ps

It's relatively easy to develop a mission statement or kick off a purpose initiative. Most organizations have sought to define their purpose at some point or other, and many think it important to ensure that the company's purpose is embedded in everything it does. But leaders also know that's not easy. Perhaps that's why companies announce purpose changes so often. "We've had so many purpose initiatives," one European group CEO told us, that "at this point, they just wash over me." A useful analog is transformations; about 70 percent of them fail to reach their stated goals, in large measure because they fail to change—and sometimes fail to even think of changing—the mindsets and behaviors of employees. Purpose should be systemic and rational, but also emotional; it should resonate with members of your organization and inform their decision making. Five major elements are critical:

1. ***Portfolio strategy and products:*** the products and services your organization provides, and the "where to play" and "how to play" choices you make to best serve your customers
2. ***People and culture:*** the talent—and the talent management—your firm deploys
3. ***Processes and systems:*** the operational processes you adapt to meet purpose-related targets; the ways you ensure that behavior up and down your value chain is in line with your purpose
4. ***Performance metrics:*** the target metrics and incentives you use to measure what you wish to achieve, how your firm is progressing, and the way you create and distribute incentives to make your organization's purpose tangible
5. ***Positions and engagement:*** how you align your external positions and affiliations to be consistent with, and consistently deliver on, the purpose your company has defined

These elements are depicted in the exhibit below.

These five levers consistently elevate purpose over the long term, but they must be regularly, and rigorously, adjusted over time. Don't kid yourself; there may be uncomfortable decisions to

Exhibit

To embed purpose in your company and deliver value, follow the 5Ps.

1 Portfolio strategy and products

- Redefine product portfolio—eg, withdraw some products, introduce new products
- Revise pricing in line with purpose
- Review portfolio and test purposefulness of individual assets against common criteria

2 People and culture

- Align recruiting, people development, and career pathways to enable purpose
- Define purpose KPIs and hold employees accountable/give them incentives to meet targets
- Articulate and role-model desired individual mindsets and behaviors linked to purpose

3 Processes and systems

- Adapt operational processes to meet purpose-related targets
- Ensure supplier behaviors are in line with purpose

4 Performance metrics

- Set performance targets and metrics in line with purpose
- Introduce capital-allocation metrics in line with purpose for decisions (eg, capital expenditures, M&A)

5 Positions and engagements

- Tailor external engagement and communications to purpose
- Revise external positions in line with purpose
- Align affiliations (eg, trade-association membership) with purpose

make, and often hard trade-offs as well. In every case, start by understanding the sources of your company's strength, and address the areas in which it is vulnerable. Then, build out your purpose infrastructure in a programmatic way.

1. Portfolio strategy and products

Demonstrating purpose in the products and services you offer is a two-step process. First, make sure that your business portfolio aligns with your company's purpose. While most companies will not, of course, be able to start from a clean slate in terms of the industries and sectors in which they compete, almost all can identify ways to reshape their business mix in an active, purposeful way. Second, once you have chosen your portfolio, fill out its businesses with products and services that match your company's purpose, and winnow out those that don't. Fight the tendency to approach purpose with a "this is the hand I've been dealt" resignation. Of course your company's endowment matters, but you have greater freedom than you might expect to choose what your company does and how it can make a positive difference.

Consider bp. The former British Petroleum has been an energy company since its founding, over a century ago, operating in extractive industries around the world. Yet that legacy has not constrained bp from reimagining what an energy company can be. The firm has pivoted sharply, adopting as its purpose "reimagining energy for people and planet"; it has not only exited its petrochemicals businesses but also announced a plan to shrink its legacy oil and gas businesses by 40 percent by 2030, to scale up its low-carbon energy businesses (such as bioenergy, hydrogen, and electric-vehicle charging) significantly, and to put itself on a path to become a net-zero carbon emitter by 2050 or sooner.

In fact, there is ample precedent for bold, purpose-based portfolio shifts. For example, DSM (Dutch State Mines), a Netherlands-based company, was originally incorporated to mine coal and, over a century, evolved into one of Europe's largest bulk chemicals companies. But, by going deep on purpose and insisting on a "triple bottom line" of people, planet, and profit, DSM showed that it could set a radically different course. From 2001 to 2015, the company not only divested from businesses such as petrochemicals and ammonia but also made more than 25 acquisitions in food, feed, and nutrition, among other business lines, transforming itself into an innovative specialty-chemicals leader.

S&P Global offers another illustration: to meet its purpose of accelerating progress in the world by providing intelligence that is essential for companies, governments, and individuals to make decisions with conviction, it shifted from a wider range of more generalized information and publishing businesses to a focus on research and analytics. Over a decade of change, it remained an information company, but it transformed itself into a different kind of information company—and a manifestly more purposeful one, seeking to meet the information needs of its stakeholders and broader society.

Creating value for all of your stakeholders by having a positive social impact is a bold decision and can require hard choices, such as CVS's decision in 2014 to remove tobacco products from its pharmacies. But, as our research has shown, strategic fortune—measured across industries, and considered in the aggregate—favors the bold. In fact, companies that keep a static portfolio serially underperform.

Few companies have embedded purpose as thoroughly as Patagonia does. The California-based outdoor-equipment and -clothing business has always been purpose driven; it was the first company in its state to become a benefit corporation (a corporate form that enables directors as a matter of law to extend their duty of loyalty beyond shareholders), and is also a certified B Corp. For decades, Patagonia's mission had been "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis." Yet in late 2018, founder Yvon Chouinard made the company's purpose even more bold: "to save our home planet." Purpose gives Patagonia the impetus to expand into multiple new businesses, such as food, in an effort to spur on new advances in regenerative agriculture. The company also creates films and books about environmental activism and launched Patagonia Action Works (PAW), a platform for matching volunteers with activist causes across different communities.

As Patagonia's example suggests, your

company's purpose should drive decision making about portfolios and then inform your choices about the products and services you offer within those portfolio businesses. Your decision making will be sharpened further by following the heuristics of superpower ("what is the unique way that our company can create value and drive progress?") and vulnerability ("what choices could we make that would be particularly discordant with our stated purpose?").

Alphabet, for instance, prioritizes its mission to promote "freedom and focus." It makes sense, therefore, that the Google Play app store no longer offers apps for personal loans that carry excessive annual percentage rates, such as those of predatory payday loans. Toy companies are profitably replacing dolls with unrealistic body images with offerings that are more true to life. Banks and financial institutions meet customer needs by introducing green auto loans, green mortgages, and green insurance; Swedish fintech Doconomy, for example, offers credit cards with built-in CO_2-emissions limits. Purpose-washing? Not when the products and services offered are moored to an organization's authentic, lived mission.

2. People and culture

The second lever for embedding purpose could, just as plausibly, be considered the first: people and culture. Purpose begins with human beings. Your employees, indeed all of your stakeholders, are your sources of strength and a hard check against inauthenticity. That's why employee sentiment is often the single greatest force undermining insincere claims of purposefulness. Think, for example, of digital-native companies that have bold, change-the-world mission statements but nonetheless find themselves tripped up by accusations of "bro cultures," or businesses called out for marketing aspirational messages while using labor from prison systems. In other cases, companies that have championed inclusivity have subsequently been accused of discriminatory behavior at the front lines.

Purpose can be aligned at critical points with your people and culture. That starts with hiring. Managers can actively screen for individuals who share the values that support the company's purpose. As a senior leader of one high-performing activewear company told us, "We hire people who reflect the values of the company. We never hire bad people hoping we can change them." Human-resource decisions grounded in purpose should also be reflected in people development and career pathways; being consistent and genuine will reinforce a virtuous circle throughout your organization. Managers should also articulate and role-model the mindsets and behaviors linked to company purpose and hold employees accountable for meeting targets. As the CEO of one Asian company recently told us, alignment with a company's purpose can't just be "management saying some nice words and calling it a day." But when the company identifies what it wants in a key performance indicator (KPI), good managers "get it done."

Decision making about your people and culture also includes capturing opportunities as they arise. At a 2019 annual general meeting, a bp employee raised her hand to ask, "When is bp going to give [employees] jobs that are meaningful?" Impressed, senior executive (and now CEO) Bernard Looney promoted her a short time later to the role of "purpose engagement manager," with the remit to work with employees to further the company's vision of reimagining energy.

The quest for meaning is part of the human condition and is embraced, not squelched, by purposeful organizations. Our research shows that employees at purpose-driven companies are four times more engaged at work—a powerful source of competitive advantage. Consider Best Buy. Former CEO Hubert Joly transformed the consumer-electronics retailer to a model in which customer service, powered by the human touch, would be the differentiator. Under his direction, the company moved to invest heavily in employee training; provide employee discounts to encourage its own people to buy, use, and then recommend products to others; and advance Geek Squad, enthusiastic agents who help choose, install, personalize, and support products that Best Buy sells. That reinforced Best Buy's purpose to enrich lives through technology and helped make the business more enjoyable for customers and employees alike.

Indeed, it's hard to overexaggerate the importance of employee commitment. London Business School professor Alex Edmans demonstrated

Sidebar

Purpose, ESG, and the 5Ps

What's the difference between purpose and ESG—and how do the 5Ps fit in?

A useful framing, we find, is to compare the *breadth* of ESG with the uniqueness of purpose. ESG encompasses society's wide range of expectations about the role of business. There are a multitude of ESG options, requirements, and variations—from community service to inclusivity, transparency in reporting, and waste management, to name just a few. Purpose, on the other hand, helps your firm prioritize from among all the things it can (and sometimes must) do in ESG. It directs you toward the areas where you want to "win" as opposed to the areas where you want to "play"—that is, where you can meet the societal bar but, for want of time and resources, can go no higher, at least for now.

Once you've determined which ESG initiatives are your "musts," the next step is to embed them in your organization. The 5Ps can serve as a practical checklist. Consider governance. Effective governance can strengthen an organization's bond with its *people and culture* (for example, through employee safety and nondiscriminatory hiring and promotion); enforce principles and standards about *portfolio strategy and products* (such as product-safety guidelines and the effects of those products on society and the planet); help *processes and systems* work to best effect (ensuring, for example, that suppliers are accountable); and assure that *performance metrics* and *positions and communications* are true and transparent. Good governance may also provide the impetus for a company to form or reconstitute as a public-benefit corporation, or seek B-Corp certification.

When leaders actively seek to embed purpose throughout their organizations, ESG feels less like a cost of doing business and more like a source of competitive advantage. That comes from your purpose being authentic and infused throughout your organization, not forced or tacked on.

that companies that invested significantly in employee well-being outperformed their peers in stock returns by 2 to 3 percent a year. That makes sense; how enthusiastic, really, should we expect employees to be if they are just punching the clock? Thus, when PayPal CEO Dan Schulman dramatically boosted employee pay in 2019 and increased benefits and made all employees shareholders in the company, he did so precisely with purpose in mind. Passionate employees radiate enthusiasm to customers and communities alike.

Your people can also be your best barometers of progress. Investigations into the banking industry over recent decades are littered with examples of early-warning signals from employees of poor conduct, the misselling of products, and faulty product design. Many of these signals either fell on deaf ears or were willfully ignored. Ensuring that your people have appropriate mechanisms and tools supported by a "speak up" culture to identify gaps is critical to embedding purpose.

3. Processes and systems

The third lever, processes and systems, addresses a core "how" of your business model: the operational initiatives, incentives, and governance mechanisms your firm relies upon to create value and to realize its purpose. It takes robust systems to keep (or start) the purpose engine humming. Some elements, of course, will be industry and business dependent. For example, food companies can identify and source healthier ingredients from their farmers, and more environmentally friendly materials from their packaging suppliers. But, regardless of sector, most companies can embed best practices, from cafeteria composting to paid leave for community service.

Your processes and systems initiatives should do the same, with considered planning for the present and future. Take, for example, Microsoft's approach to carbon emissions. The company already worked to be carbon neutral (a goal it achieved in 2012), and has since aimed even higher: by 2025, Microsoft expects to consume only renewable energy at its data centers, buildings, and campuses; and the company plans to completely electrify its global campus operations vehicle fleet by 2030—the year the company has announced it will be carbon negative. While some organizations track carbon to create nominal (though meaningful) "carbon-adjusted" financial reporting, Microsoft already assesses an internal carbon fee on its business divisions. Funds from the assessment are used to invest in further carbon-reduction efforts within the firm, and to contribute to environmental causes worldwide.

Indeed, when embedding purpose in your company's processes and systems, it's vital to look beyond the firm's four walls. Walmart's Project Gigaton, for example, embraces its entire supply chain: the program aims to help suppliers eliminate one gigaton of greenhouse gases by 2030. As part of the initiative, Walmart identified six categories in which suppliers should reduce emissions: energy, waste, packaging, forests, agriculture, and product use and design. It then built a platform to help suppliers chart their emissions reductions. Suppliers come up with their own emissions-reductions goals, which must be "SMART"—specific, measurable, achievable, relevant, and time limited. They are also required to report their progress annually, and top achievers receive recognition on Walmart's sustainability hub website. Hundreds of suppliers currently take part, and Walmart expects even more to join.

As BHP's CEO, Mike Henry, recently shared, embedding purpose throughout the supply chain is proving to be a source of resilience, even in the face of COVID-19.[2] From the start of the pandemic, BHP moved to support its small, local, and indigenous suppliers by reducing payment terms from 30 days or more down to seven days. The company understood that these suppliers would be vulnerable, and sought to play a role in supporting them. That resonates. "When [suppliers] have seen that we're there for them in their time of need, they'll be there for us in our time of need," Henry explained. "And that's what we've seen. They've invested greater effort to ensure that they can continue to support BHP and keep the commitments they've made to us."

4. Performance metrics

Purpose can and should be measured rigorously. In practice, this means identifying the key performance indicators that tie to your company's purpose, tracking them over time, and incenting your organization to meet purpose targets. What gets measured gets managed, as Peter Drucker famously observed. The converse is perhaps even more apt: what you seek to manage should be measured, and on a consistent basis. Too often, companies mistake, and then conflate, ESG benchmarks with purpose metrics. Standards from third-party organizations such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), while important, should never become the ESG reporting "tail" that wags the purposeful company's dog. Purpose should come from within and guide the unique metrics you measure and track. If your company starts with ESG reporting and then "backs into" a purpose, it's getting purpose backward.

Since purpose expresses what your company is and aspires to be, purpose metrics should inform not only day-to-day operations but also allocation decisions such as capital expenditures and M&A, as well as company-wide transformation initiatives. A number of energy companies, for example, now tie executive compensation to emissions. One leading retail bank, to take another case, found itself prominently featured in a national scandal in which several financial institutions in the country had committed different regulatory breaches. The harsh negative publicity prompted hard thinking about the bank's fundamental purpose and its relationships both with broader society and individual customers, and about how to identify, measure, and improve its purpose-based performance. Part of that purpose focused on improving customer outcomes. One way the bank oriented toward a more purposeful outcome was to redesign incentives. The bank's previous incentive structure included volume-based targets. Although financially not significant, reducing the weight of volume-based targets in performance evaluations was regarded by the bank as critical to its purpose shift, if only for

[2] "Prioritize people in times of crisis: An interview with the CEO of BHP," McKinsey Quarterly, August 2020, McKinsey.com.

symbolic reasons. But, remarkably, after reducing the weight of volume-based targets, the bank proceeded to financially outperform its peers. Quality of purpose, and the broad activities and behaviors that underpin its purpose, proved to be more influential than quantity. The bank now takes a more balanced approach to the measurement of, and reward for, the performance of frontline staff and managers. It incorporates a broader set of metrics related to customer outcomes, including, for example, the number and extent of interactions with customers to better understand their needs.

There are a range of tools and KPIs that companies can use, but, because purpose is bespoke, off-the-shelf solutions almost never have the same impact as those that are carefully tailored. Moreover, measuring and activating should not be limited to monetary incentives. Companies can encourage community outreach by celebrating offices and employees who contribute measurably to the organization's mission. Businesses can also use behavioral economics to "nudge" for positive behavior, such as energy saving or waste reduction. We've found, too, that simply showing employees and other stakeholders how the organization is progressing along metrics such as diversity or sustainability—information that can be presented clearly in standardized reports—reinforces purpose and builds momentum for more.

It's a fair critique to say that purpose can feel orthogonal, particularly at the start of a purpose-focused initiative, because, in a prior way of doing things, it may indeed have been orthogonal. But as employees and other stakeholders are presented purpose-based metrics on a routine basis—numbers of employees from underrepresented groups, for example, or contracts with minority suppliers or customers—purpose will feel more comfortable. It becomes standard procedure.

5. Positions and communications

What's true within your organization should be consistent beyond it: purpose should be embedded into how your organization conveys information to and engages with the public. It's within this "P" that charges of "purpose washing" are most likely to arise—and understandably so. Artificial expressions of purpose ring false, and stakeholders recognize inauthenticity. The Edelman Trust Barometer, for example, found that two-thirds of respondents agreed that "[a] good reputation may get me to try a product, but unless I come to trust the company behind the product, I will soon stop buying it."[3]

More than half of respondents also believe that every brand has a responsibility to get involved in at least one social issue that does not directly affect its business.[4]

The growing ascendance of the belief-based consumer is a powerful opportunity for many companies to step up much more visibly on the "S" element of ESG and strengthen their social license to operate. One way to do so is to consider the trade associations your firm supports—or perhaps no longer should. Both Royal Dutch Shell and bp, for example, undertook extensive reviews of those receiving their support and ultimately withdrew from a number of trade associations because they were deemed inconsistent with the company's purpose. Another action is to step up your philanthropy and corporate giving, making those efforts of a piece with your business model. Doing so in an authentic way, linked to your company's superpower and demonstrable to those around you, can strengthen your organization's ties with its community and burnish its social license. General Mills, for instance, aligns its 150-year old philanthropic foundation to share food expertise by partnering with employees in the communities in which they live and work. As well, Philippines-based conglomerate Ayala Group spearheads "Project Ugnayan," a private-sector partnership working with hundreds of local companies to help feed millions of people in the Greater Manila area.

When purpose is hardwired, your company's positions, communications, and external engagement become logical extensions of your business model; purpose eliminates the gap between walk and talk. Consider Takeda, headquartered in Japan, and one of the world's largest pharmaceutical companies. The organization strives, as CEO Christophe Weber explained, to "put [its] employees and patients

[3] Edelman Trust Barometer Special Report: In brands we trust?, Edelman, June 18, 2019, edelman.com.
[4] Ibid.

first.”[5] When COVID-19 hit, it was among the first pharmaceutical companies in many countries to pull its field force and put a hold on marketing calls. “For us,” Weber related, “that was an easy decision.” Or Microsoft, which has a strong commitment “to empower every person and every organization on the planet to achieve more.” The company announced that it would be closing all of its brick-and-mortar stores and focusing its retail operations on digital storefronts. That hard decision was a while in the making, and was finalized during the economic downturn brought about by COVID-19. Remarkably, however, Microsoft decided that the store workers will now continue serving customers from corporate facilities and remotely, providing digital sales, training, and support.

Purpose is a source of competitive advantage, but it must be genuine and infused in your organization’s business model. The 5Ps provide a framework to help companies embed purpose in a systematic, holistic way. It helps organizations unlock sources of value, identify points of vulnerability, and do well by doing good.

5 “How Asia’s largest pharma is leveraging its values to navigate the COVID-19 crisis,” McKinsey Quarterly, July 2020, McKinsey.com.

ABOUT THE AUTHOR(S)

This article was a collaborative, global effort among **Sebastian Leape** and **Jinchen Zou** (consultants in McKinsey’s Washington, DC, office), **Olivia Loadwick** (an associate partner in the Sydney office), **Robin Nuttall** and **Matt Stone** (partners in the London office), and **Bruce Simpson** (a senior partner in the Toronto office and leader of McKinsey’s purpose and ESG initiative).

This article was edited by David Schwartz, an executive editor in the Tel Aviv office.

Organization Practice

Doing vs being: Practical lessons on building an agile culture

Four global success stories offer insights and lessons learned on achieving organizational agility.

By Nikola Jurisic, Michael Lurie, Philippine Risch, and Olli Salo

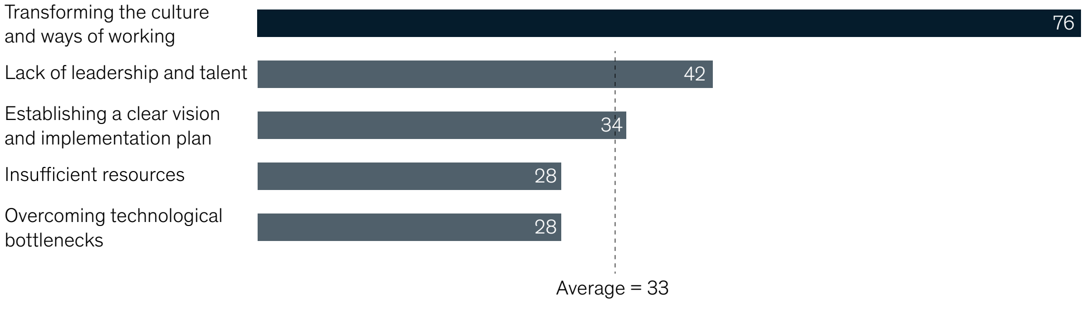
Around the world, a growing number of organizations are embracing agility to improve delivery, increase speed, and enhance customer and employee experience.[1] Indeed, in the time of COVID-19, many organizations have accelerated their shift to agile. Our recent research found that agile organizations responded faster to the crisis,[2] while those that do not embrace agile working may well forfeit the benefits of speed and resilience needed in the "next normal" after the COVID-19 pandemic.[3]

In essence, agility at an enterprise level means moving strategy, structure, processes, people, and technology toward a new operating model by rebuilding an organization around hundreds of self-steering, high-performing teams supported by a stable backbone.[4] On starting an agile transformation, many organizations emphasize and discuss tribes, squads, chapters, scrums, and DevOps pipelines. Our research shows, however, that the people dimension—culture especially—is the most difficult to get right. In fact, the challenges of culture change are more than twice as common as the average of the other top five challenges (Exhibit 1).

Exhibit 1

More than 70 percent of respondents are transforming to agile; changing the culture is their biggest challenge.

Top five challenges during an enterprise agile transformation, % of respondents (n = 1,411)



1 "How to create an agile organization," October 2017, McKinsey.co
2 Christopher Handscomb, Deepak Mahadevan, Euvin Naidoo, Suraj Srinivasan, and Lars Schor, "An operating model for the next normal: Lessons from agile organizations in the crisis," June 25, 2020, McKinsey.com
3 Kevin Sneader and Bob Sternfels, "From surviving to thriving: Reimagining the post-COVID-19 return," May 2020, McKinsey.com
4 Wouter Aghina, Karin Ahlback, Aaron De Smet, Gerald Lackey, Michael Lurie, Monica Murarka, and Christopher Handscomb, The five trademarks of agile organizations, January 2018, McKinsey.com.

Shifting culture requires dedicated effort. Unfortunately, many organizations on this journey struggle to articulate their aspired agile culture and bring it to life. This article demystifies culture change in an agile world through four practical lessons drawn from real-life success stories from around the world.

Lesson 1: Define the from–tos

Each organization is unique. Accordingly, each needs its unique culture to power the new agile operating model. Organizations building an agile culture should base their approach on aspirational goals. They also need to understand their current culture, including the behavioral pain points that can be used as a starting point to articulate three to five specific mindset and behavior shifts that would make the biggest difference in delivering business results.

At New Zealand–based digital-services and telecommunications company Spark, one of the first steps the leadership team took in its agile transformation was to launch an effort to articulate the cultural from–tos. Spark boldly decided to go all in on agile across the entire organization in 2017[5]—flipping the whole organization to an agile operating model in less than a year. From the beginning, Spark understood that the change needed to be a "hearts and minds" transformation if it was to successfully enable radical shifts to structure, processes, and technology.

Spark's culture change started with its Sounding Board, a diverse group of 70 volunteers from across the organization. These were opinion leaders—the "water cooler" leaders and Spark's "neural network"—not the usual suspects visible to management. The Sounding Board's role was creating buy-in for and comprehension about the new model and designing enablers (behavioral shifts and new values) to help employees along the agile journey.

An early task for the Sounding Board was to identify the behavioral shifts teams would need to thrive in the new agile operating model. Members used their experiences, inspirational examples from other companies, and Spark's work on culture and talent to define these shifts. And to help inform what changes were necessary, the Sounding Board sought to understand mindsets (those underlying thoughts, feelings, and beliefs that explain why people act the way they do) that were driving behaviors.

The *from–to* aspirations were then shared with different groups, including the top team, and distilled into four key themes. Each theme had to resonate with colleagues across the organization, be both practical and achievable, be specific to the company (that is, not derived from general agile theory). The resulting articulation of from–to behaviors allowed Spark to understand and compare its existing cultural reality with the desired end state (Exhibit 2).[6]

Finally, to set up its *from–tos* as more than words on paper, Spark made culture one of the agile transformation's work streams, sponsored by a top team member and discussed weekly in transformation sessions. The work stream brought culture to life through action. The from–to changes were incorporated in all major design choices, events, and capability-building activities. The work stream aligned fully with other culture initiatives that would help to move the needle on cultural change, such as diversity and inclusion.

Melissa Anastasiou, the team member who led the company's culture workstream, observed: "Like many organizations, the company's experience has been that culture change is hard and does not happen overnight. It takes collective and consistent effort, as well as a genuine belief in and understanding of the 'why' at all levels of the organization. Setting a clear and purposeful vision for what great looks like—and ensuring that this vision is authentically bought in from bottom to top that is, from shop floor to C-suite—put us in the best possible position to deliver the change to full business agile."

---

5 Bo Krag Esbensen, Klemens Hjartar, David Pralong, and Olli Salo, "A tale of two agile paths: How a pair of operators set up their organizational
transformations," February 2019, McKinsey.com.

6 In parallel with defining the from–to shifts, Spark redefined its values. While the behavior shifts supported the new values, they were intentionally kept conceptually separate. The values define something more enduring and aspirational while the from–tos are akin to a targeted "gym program"—something the organization needs to focus on in the next months to become agile, given where the culture is now.

Exhibit 2

A clear, purposeful cultural aspiration is the foundation of a successful transformation program.

From	To
Being cautious • Playing it safe; it's always acceptable to escalate • Believing failure is to be avoided at all costs	**Owning it** • Doing what is right • Feeling safe to have a go and experiment
Loudest voices winning • Only listening to big personalities or leaders • Feeling cautious to speak up	**Valuing every voice** • Actively seeking diverse perspectives • Taking responsibility to speak up
Managing and directing • Telling others how to get things done • Relying on rules to organize team work	**Empowering and coaching** • Trusting others to get things done • Using guidelines and questions to help others solve problems
My tasks • Prioritizing own deliverables over broader team needs • Passing to a player, not for a player	**Team success** • Looking to make others shine • Being deliberately open and transparent • Being generous with time for others

Lesson 2: Make it personal

This lesson is about making the change personally meaningful to employees. To take change from the organizational to the personal frontier, leaders need to give their people the space and support to define what the agile mindset means to them. This will differ among senior leaders, middle managers, and frontline staff, and have different implications for each. Inviting colleagues to share personal experiences and struggles can build transformational momentum and unlock transformational energy.

This was an approach adopted by Roche, a 122-year-old biotechnology company with 94,000 employees in more than 100 countries. In order to build an agile culture, Roche facilitated a deep, personal change process among senior leaders. More than 1,000 of these leaders were invited to learn a new, more agile approach to leadership through a four-day immersive program that introduced them to the mindsets and capabilities needed to lead an agile organization. The program, called Kinesis, focused on enabling leaders to shift from a limiting, reactive mindset to an enabling, creative one. It also started the journey of learning how to shift from a traditional organization designed for command, control, and value capture to an agile organization designed for innovation, collaboration, and value creation.[7]

Throughout the program, leaders came to recognize the ways in which their individual mindsets, thoughts, and feelings manifested in the design architecture and culture of the organizations they led. This recognition highlights why change programs that start with personal transformation are more successful. Organizations are built and led by their leaders: the way they think, make decisions, and show up shapes every part of the organization. This dynamic is amplified in agile organizations, which have an unusually high degree of openness and transparency.[8]

The Kinesis program focused on leading through example. Roche's head of talent innovation (the primary architect of the initiative) heard dozens of stories of leaders coming back from Kinesis and showing up differently. Beyond its

[7] See "How a healthcare company is pursuing agile transformation," January 2019, McKinsey.com
[8] See "Agile: The new active ingredient in pharma development," June 2019, McKinsey.com.

learning programs, Kinesis also helped make the change personal by catalyzing large-scale experimentation in organization and business models. Within six months of the senior leader programs, many participants had launched agile experiments with their own leadership teams, departments, and several in their organizational units—engaging thousands of people in cocreating innovative ways to embed agility within the organization.

A core tenet of Kinesis was invitation, not expectation. Leaders were invited to apply lessons learned back to their own organizations. With the new mindset and the invitation, most participants did. Compared with the initial expectations of 5 to 10 percent of participants running a follow-up session with their teams, 95 percent chose to do so.[9] Today, agility has been embraced and widely deployed with Roche in many forms and across many of its organizations, engaging tens of thousands of people in applying agile mindsets and ways of working.

Lesson 3: Culturally engineer the architecture

Even the best-designed culture programs can fail if the surrounding context does not support—or worse, hinders—new mindsets and behaviors. To sustain a new culture, the structures, processes, and technology must be redesigned to support behavioral expectations. To be successful, the desired culture change needs to be hardwired into all elements of the business-as-usual organization as well as the transformation.

Magyar Telekom of Hungary (a Deutsche Telekom subsidiary), invested to embed and ingrain agile mindsets and behaviors throughout the agile transformation it started in 2018. As with Spark and Roche, Magyar Telekom began with the foundational lesson of defining its from–to. The telco started with three core values that, as the transformation matured, eventually evolved into seven values and were translated into slogans for more effective communication:[10]

- *Focus,* becoming more focused by critically assessing the current tasks and saying no to things that are not worth the required effort
- *Ownership,* encouraging ownership by nudging employees to think of their tasks as if being performed for their own company
- *Retrospection,* emphasizing the need to review and assess, celebrating successes and learning from failures

To ensure formal mechanisms supported this agile mindset shift, Magyar Telekom used structural changes on an individual and organizational level, aligning the people, customer, and business processes as well as the physical and digital working environments to an agile culture.

Magyar Telekom's people processes, for example, practically reflected four principles:

- All messages employees receive from the company are consistent with its cultural values
- The cultural values and themes of focus, ownership, and retrospection are embedded in all HR and people processes
- The employer brand, recruitment process, and onboarding journey ensure every new employee understands the agile culture's cornerstones
- Criteria for career progression define and support agile mindsets and behavior shifts

Magyar Telekom's business processes were also hardwired to support its culture values. One of several examples used to support the focus and retrospective themes was the quarterly business review (QBR), a common element of agile operating models for business planning and resource allocation. QBRs typically involve stakeholders from major areas of the organization to set priorities and manage organizational demand and dependencies.

To further emphasize focus, the telco committed to implementing and scaling the QBR in the whole organization, including nontribe areas such as customer care or field execution. This formal mechanism had strong cultural implications. First, it signaled that the organization was committed to its cultural theme of focus. Second,

---

[9] Larry Emond, "How Roche Helps Leaders Achieve the Power of an Agile Mindset," Gallup, April 29, 2019, gallup.com.
[10] For example, "ownership" became "we deliver what we commit to."

the company-wide QBR aligned the whole organization around clear priorities, helping employees focus only on activities that create value while explicitly recognizing and deprioritizing activities that do not. Third, the QBR cycle also included retrospectives to understand and learn from previous successes and failures in a formal, structured, and highly visible process.

Another powerful way to ingrain culture is to change the physical and digital environments. Floors and walls can, quite literally, create either collaboration or barriers between teams. Magyar Telekom altered its floor plans to create spaces for individual squads, as well as all squads in a tribe, to sit and work together. The new physical environment promoted collaboration and continuous interactions. Team- level tools were introduced—including spaces for squads' ceremonies and writeable walls where teams could visualize priorities, track progress, and engage in real-time creative thinking. Similarly, the digital work environment was updated with agile tools such as Jira issue-tracking and Confluence collaboration software, enabling efficient handling of epics, features and user stories. Within weeks, the Magyar Telekom work spaces turned from stereotypical offices to collaborative incubators of the new agile culture.

Lesson 4: Monitor and learn

Continuous learning and improvement is a core principle of agile working. It applies to agile culture as well. Successful agile transformations have shown the value of monitoring progress, evaluating behavioral change and its impact on performance, and running regular retrospectives to learn from successes and failures. However, measuring behavioral change has traditionally been a challenge.

ING, a well-known leader of agile transformations in banking, innovated here and used multiple approaches to track the impact of its agile transformation on productivity and several dimensions of performance, time to market and volume, and employee engagement. As part of these tracking initiatives, ING also tracked the progress of culture change and its impact on the overall transformation. The bank even teamed with INSEAD's Maria Guadalupe, a professor of economics, to study and improve the quality of tracking efforts and the resulting insights.

ING's first tracking initiative was a 40-question survey with 1,000 respondents that ran five times between 2015 and 2017. The survey questions, including those related to culture, were linked to the bank's objectives and key results. This correlation between the transformation's soft and hard drivers and its performance metrics allowed ING to see which cultural factors led to results and were critical to the transformation's success. According to Michel Zuidgeest, ING's lead of Global Change Execution, the product-owner roles and their corresponding behaviors, for example, turned out to be one of the most important factors affecting outcomes. Skill sets for product owners, chapter leads, and agile coaches—as well as the way they work together—were not clearly defined at the start of the transformation, and individuals in these roles had to grow the right mindsets and behaviors before team performance improved.

ING's second tracking initiative, started in 2019, combined a 300-person "working floor" survey with senior leadership interviews across 15 countries. Once again, metrics on agile included culture-related questions on whether people on the floor felt more responsibility, whether they could collaborate better, and whether they were more able to learn from others in the company. In parallel, ING used qualitative methods to track the shift toward an agile culture. Updated performance frameworks and dialogues, for example, tracked whether employees were adopting desired behaviors while a continuous listening framework gave an ongoing pulse check of how people were doing.

ING used the data from its tracking initiatives to produce practical learning. Survey and interview results were used in QBRs, leadership dialogues, and improvement cycles. Outcomes were shared with tribes, the central works council, advisory groups, and others, and used in performance dialogues. ING also shared its findings with universities, sharpening both the company's tracking efforts and university research. The value of tracking became very clear. ING managed to measure culture progress, establish the correlation between culture and performance, and use culture data to bring its agile operating model to life.

ING's tracking initiatives produced insights on agile maturity, performance, and culture. Payam

Djavdan, ING's global head for One Agile Way of Working, explains that as the agile culture metrics improved—specifically the sense of belonging, motivation, purpose, and empowerment—employee engagement consistently increased. Similarly, several dimensions of team performance improved as the culture of credibility and clarity took hold while greater autonomy, a core principle of agile culture, allowed teams to take on their own challenges. In parallel, performance dialogues revealed that trust in tribe leads was a defining factor in employees' engagement and their ability to share the tribe's purpose.

Culture counts in all organizational transformations; it becomes critical in agile transformations. Organizations can do agile by chaWnging their structure, processes, and technology. But they cannot be agile without changing the way people work and interact daily. Enabling a successful, agile transformation requires a fundamental shift in culture. Lessons from organizations that have successfully made this shift can give others a head start on their own transformation journeys.

ABOUT THE AUTHOR(S)

Nikola Jurisic is a senior expert in McKinsey's Dubai office, **Michael Lurie** is a partner in the Southern California office, **Olli Salo** is a partner in the Helsinki office, and **Philippine Risch** is a partner at Aberkyn.

The authors wish to thank Christopher Handscomb, Jelle Maddens, Andrew St. George, Dorottya Svab, Tal Shavit, David Pralong, Laura Furstenthal, Marcus Sieberer, and Daniel Rona for their contributions to this article.

How to become 'tech forward': A technology-transformation approach that works

Getting value from tech relies on tackling multiple interdependent programs at once.

This article was a collaborative effort by Anusha Dhasarathy, Isha Gill, Naufal Khan, Sriram Sekar, and Steve Van Kuiken, representing views from McKinsey Technology

For executives looking for lessons in the wake of COVID-19, one has emerged clearly: every company needs to become a tech company.

Whether it's been the shift to online working, the spike in online demand, or the increase in cyber assaults, technology has emerged as a critical business capability. That reality has injected a renewed importance and new urgency into modernizing the technology function. Companies can no longer afford the long timelines and often-disappointing business returns that have hampered many of the large tech-transformation projects of the past.

Instead, some technology leaders have pursued a new approach that is comprehensive enough to account for the myriad interlinkages of modern technology joined at the hip with the business so that change delivers value, and self-funded so that the scope of the change can continue to expand. We think of this comprehensive approach as "tech forward."

Counteracting the most devastating tech-transformation failure modes

Some companies are starting to see real impact from their tech transformations. In a recent McKinsey study, some 50 percent of surveyed companies reported moderate to significant impact on realizing new revenue streams, almost 70 percent reported impact on increasing existing revenue streams, and 76 percent reported impact on reducing costs.[1]

Tech transformations, nonetheless, remain notoriously difficult and complex. Though many companies are transforming their tech organizations, about 50 percent of them report that they're still in the pilot phase (small tech teams working with advanced technologies but isolated from the rest of the technology function).[2]

To understand better what successful tech transformations look like—as well as what the most important pitfalls are—we spoke with

1 McKinsey Global Survey on IT and the Business, August 2020
2 Ibid.

more than 600 CIOs at some of the largest companies across the world. These conversations illuminated a number of consistent factors that most consistently kill off even the most promising tech transformations and revealed antidotes to address them. Following are three of the most common failure modes.

Piecemeal activity and limited scope

There is no shortage of technology-transformation initiatives, all of them with good intentions and promising payoffs. In fact, our latest analysis shows that companies are expanding the range of tech-related transformations (Exhibit 1).

But too often companies focus on a series of initiatives without accounting for crucial dependencies that need to be in place to enable the change. Simply migrating systems to the cloud without also thoughtfully implementing cyber strategy, agile, and DevOps, for example, would leave a company unable to take advantage of the automation, scale, and flexibility that cloud-based systems offer. The other side of the coin is that activities in one area can have unintended consequences in another, often breaking or disabling tangential systems. Modernizing the architecture, for example, changes how development teams deploy to it; using old methods results in errors and delays. Successful CIOs, in contrast, are explicit in identifying system dependencies and deliberate in managing them so that the full scope of potential benefits can be captured.

No link to business value

New technologies continually hit the market, many with tempting promises to solve many of tech's ills. Unfortunately, many of these "shiny objects" in which technology functions invest have limited value to the business due to limited partnering between technology and the business, the inability

Exhibit 1

Companies are pursuing a larger range of transformations and moving beyond modernizing infrastructure.

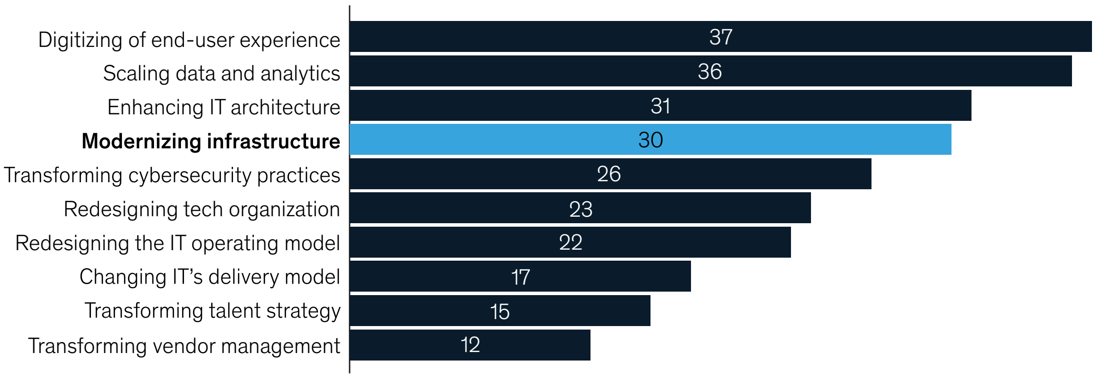
Over the past three years, infrastructure transformations have led the way as the most-cited type of transformation pursued in the past two years by

60%

of respondents[1]

… but **this year, respondents are planning a wider spread of transformations**, with more focus upward along the tech stack

Types of transformations most likely to be pursued over next two years,[2] %



Companies that modernized their infrastructure have a more modern, stable, and flexible infrastructure in place—and are ready to pursue new types of transformations.

[1]Q: *Of the following types of IT transformations (large-scale change efforts that are more comprehensive than short-term improvement programs), which, if any, has your organization pursued in the past two years?* (n = >450). Data for "Scaling data and analytics" not available for 2017 and 2016.
[2]Q: *Which of the following IT transformations, if any, is your organization most likely to pursue in the next two years?* (n = 487).

of technology to communicate the value of tech to the business, and an often unclear sense of the business value at stake.

Top organizations instead are deliberate in developing a governance program tied to the business, grounding each initiative in an explicit P&L result and building in specific metrics to track progress against business targets. This becomes even more critical in a post-COVID-19 world in which budgets are tightening and return on investment (ROI) is essential.

Too expensive to sustain

Tech transformations are expensive. When their ROI lies too far in the future (or is disappointing, as has happened in the past), critical investment is too often pulled back. That doesn't need to happen.

Successful transformations, in contrast, frontload activities that unlock value quickly. Those activities can include agile sourcing strategies, clean-sheeting the portfolio, or optimizing the balance of engineering and non-engineering roles—changes that often unlock millions of dollars.

What a 'tech forward' transformation looks like

Detailed conversations with CIOs as well as our own experience helping businesses execute complex technology transformations yielded a broad array of insights, best practices, and guidelines. We've synthesized them into a "tech forward" model that highlights three interconnected vectors, within which are ten specific "plays," or domains of activity (Exhibit 2).

It is important to call out that the identification of

Exhibit 2

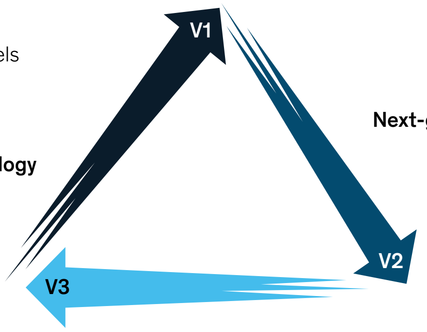
Successful technology transformations span three vectors of activity, each consisting of a specific set of plays.

Vector 1: Reimagine role of technology

1. **Tech-forward business strategy** (new tech-enabled business models or customer-facing products)
2. **Integrated business and technology management** (no silos, product/ platform orientation) with strategic spend allocation
3. **Steward of digital user experience** (design thinking, user-centricity, seamless integration with analog)

Vector 2: Reinvent technology delivery

4. **Agile@scale** software delivery
5. **Next-generation infrastructure services** (cloud, end-to-end automation/ NoOps, platform as a service)
6. **Engineering excellence** with top talent (both internal and external); do more with less
7. **Flexible technology partner-ships** (capability-focused, outcome-based)



Vector 3: Future-proof the foundation

8. **Flexible, business-backed architecture** rehaul delivered iteratively (open architecture, microservices, application programming interfaces)
9. **Data ubiquity and advanced analytics** enablement
10. **Defenses that preempt evolving threats** (cyber, data privacy)

the activities themselves isn't the main reveal—CIOs will be familiar with most if not all of them. This tech-forward model has proven most useful, however, in helping organizations understand the scale of needed change and think through interdependencies across vectors and plays.

Vector #1: A reimagined role for technology that's focused on the business

Effective technology functions maintain close ties with other business functions, but best-in-class CIOs take this a step further, with technology *driving* the business. That requires reimagining technology's role through technology-led business models (play #1), a product- and platform-centered operating model with ingrained strategic funding allocation (play #2), and technology functions becoming the steward of digital user journeys (play #3) given their unique perspective across functions such as marketing, sales, and operations. In organizations that have truly reimagined technology's role, the role of the CIO is also often elevated.

This vector of change often isn't the first one we see. Rather, this reimagined role for technology develops over time as the other two vectors begin delivering value and the credibility of the technology function grows. However, this aspiration for technology to drive business value must be explicitly defined up front or the results may fall short, as they often do.

Vector #2: A technology delivery model built for flexibility and speed

Modern technology functions set up their delivery models to keep pace with the fast-evolving needs of customers and employees. Using agile methods, tech teams prioritize and carry out activities that have the greatest potential to help their companies realize sought-after performance gains (play #4). Next-generation infrastructure services based in the cloud accelerate delivery and stabilize the tech environment by automating development, testing, and deployment processes (play #5). To improve the quality and efficiency of their work, modern tech functions hire highly skilled engineers to deliver mission-critical engineering in house (play #6). They also partner thoughtfully with a variety of vendors, ranging from hyperscalers to software-as-a-service (SaaS) firms to niche engineering organizations to large-scale systems integrators, for help in building or augmenting capabilities that are more challenging to develop or scale, using contracts that reward vendors for producing business outcomes rather than merely augmenting in-house capacity (play #7).

Vector #3: A future-proof foundation of core tech systems that support innovation, collaboration, and security

Renewing core systems so they support new digital functionalities, multiple daily production releases, and frequent upgrades can provide significant performance benefits. Such modern systems are arranged according to a flexible architecture consisting of self-contained applications connected with easy-to-configure application programming interfaces (APIs) (play #8). A modern technology core includes data and analytics systems that provide technology teams across the enterprise with the high-quality information and powerful tools they need to gain insights into customer and employee preferences, design innovative applications, and enrich user experiences (play #9). It also enables tech teams to integrate security and privacy protections as they develop solutions, rather than adding them after solutions development is complete. This approach greatly accelerates delivery while maintaining or even improving information security (play #10).

The challenge in using this model lies not just in coordinating the interdependencies, as challenging as that can be; it's in sequencing the transformation initiatives so that they build value quickly. It is essential that a tech transformation deliver value within a year; beyond that, skepticism builds and support fades. To enable this focus on value, the transformation road map should take on a few interdependent changes at a time, with a series of coordinated efforts, each of which can be completed within three to six months.

Tech forward in action

A consumer-services company transforms its tech function to support better customer experiences

A major institution in the consumer-services sector was losing business to its rivals, who were aggressively rolling out new and better digital products and channels. Working closely with the CEO and other business-unit leaders, the CIO determined IT needed to develop a set of digital channels and products to improve customer retention, increase share of wallet, and improve customer experience (play #1).

With this clear articulation of how new digital products would deliver business value, the CIO was ready to start building them. But he quickly realized that progress would be difficult unless IT changed how it developed products that customers actually wanted (play #3), how IT worked with the business to ensure that the technology products delivered value (play #2), and how teams collaborated to make better and faster progress. Without these changes, he knew the company would run into the same delays and issues that had dogged its earlier technology initiatives.

Acting on this understanding, the CIO partnered with business leaders to design a new model for how business and technology would partner. That included, for example, creating a single "point of entry" for any technology requests and frequent meetings to jointly review and prioritize them. Each month, they reviewed the tech road map against the business strategy. One result was the creation of a fast track for product requests that didn't require significant work, a simple solution to the previous monolithic development process that every request had to go through.

Simultaneously, he implemented a new, agile, product-engineering model (play #4) where cross-functional teams made up of people with design, development, operations, and other expertise collaborated around a specific user experience (mobile ordering or setting up an account, for example). To ensure speed and momentum, these teams were trained to use agile ways of working together, such as breaking initiatives into two-week projects (sprints), piloting new products to get user input, and rapidly testing operational effectiveness before scaling. To help focus their work, the teams used design thinking to build clear pictures of true user needs and pain points.

This initial phase of work allowed technology teams to roll out the first set of digital offerings successfully and under budget—and three to five times faster than similar technology projects undertaken in the past.

With the digital-products workstream well under way, the CIO focused his attention on another cluster of critical dependencies: scaling cloud-based services (play #5), modernizing and migrating foundational systems to microservices (play #8), and leveraging data to find new sources of value (play #9). SWAT teams of engineers and architects came together to anticipate system-reliability issues and their root causes. They tackled the most urgent ones first and managed the backlog. They also actively checked that fixes were working and stepped in quickly to address any that weren't.

At the same time, another team modernized foundational systems by building out a microservices-based architecture for all new development. To enable this shift, more easily accommodate new digital solutions, and help improve time to market, they worked on updated cloud-based platforms, which allowed them to use cloud-based data services to rapidly process and analyze their data to identify new business opportunities. Working collaboratively, business and IT teams created almost 50 use cases, such as improved demand and inventory forecasting, that have the potential to add as much as $1 billion of incremental revenue.

Questions that help orchestrate a successful tech-forward transformation

To get the sequence of transformation activities right, executives need to be clear about where they're going and what their current capabilities are. Companies often have an incomplete understanding of these two elements, which creates confusion in the executive suite and will derail a tech transformation before it ever gets started.

To plot a company's tech-transformation road map, we find the following questions particularly helpful:

- What is your expectation from technology?
- Which strategic outcomes are most critical (for example, speed and quality of delivery)?
- Which are the most urgent pain points and what causes them?

The following questions help executives understand the current state of the technology function and its experience with transformation programs:

- Which, if any, of the ten plays from the tech-forward approach are in place, and what is their maturity?
- Is transforming your company's tech one of the top two priorities in your C-suite? If not, why not?
- How well does the technology function support your company's strategic objectives or digital ambitions?
- What tech-transformation efforts has your company launched to date? What effect have they had? What went well, and what didn't?
- What factors might restrict the pace of your tech-transformation efforts? In particular, how much capital and other resources can the company devote to tech transformation?

The current COVID-19 crisis, of course, is having a significant impact on how CIOs and businesses manage tech transformations. Despite the pressures it has added to costs, however, the urgency to get moving and transform has never been higher, according to many CIOs. But while the demands placed on the technology function have grown, so too have the opportunities. Experience suggests that the most effective transformations are not only comprehensive, covering the function's role, delivery model, and core systems, but also sequenced to ensure that changes that reinforce each other are carried out together. With up-front planning focused on business value and careful delivery, a company can bring its technology function forward and gain the capabilities to thrive in challenging digital markets.

ABOUT THE AUTHOR(S)

Anusha Dhasarathy is a partner in McKinsey's Chicago office, where **Isha Gill** is an associate partner and **Naufal Khan** is a senior partner; **Sriram Sekar** is a senior expert in the New Jersey office, where **Steve Van Kuiken** is a senior partner.

Operations Practice

Unlocking enterprise efficiencies through zero-based design

Zero-based design allows even mature companies in asset-heavy industries to cut costs and complexity without compromising safety, quality, or customer trust.

By Charles-Henri Marque, Rohit Panikkar, and Sai Tunuguntla

Across virtually every industry, startups are gaining ground, if not disrupting the status quo, with new operating models that allow them to design, test, and scale better products and services, faster than ever. This ability has raised customer expectations, putting added pressure on incumbent businesses.

Of course, startups have an innate advantage: a clean slate from which to design operations and processes. Incumbents, on the other hand, contend with rigid and ingrained processes and systems, and a well-worn, usually siloed, organizational structure that slows decision making. Other constraints, such as a legacy infrastructure or the lack of the right talent, skills, and capabilities, make change slow and difficult at a time when rapid response is needed more than ever. And in this environment, operational-excellence efforts tend to emphasize the continuous improvement of current-state work, rather than the kind of radical, step-change reimagination that has become a business imperative in the digital era.

Yet it is indeed possible for mature companies—even those in asset-heavy industries—to cut waste and complexity and accelerate processes dramatically without compromising safety, quality, or customer trust. While they can't exactly work from a clean slate, mature companies can sweep away many of the self-imposed barriers to achieve results that more closely align with their priorities. This approach is called zero-based design.

Some organizations know their internal processes need radical change—fast. They use zero-based design to deliver substantial results despite legacy business' usual constraints of protracted product-development cycles and complex processes. Indeed, zero-based design isn't new: it has already proven its worth in product design and more recently, in redesigning customer-facing processes. Its usefulness doesn't stop there: zero-based design holds promise in delivering quantum-leap performance improvement in the internal operations of many types of enterprises, regardless of industry.

Legacy approaches are bogging operations down

Many companies, especially those dealing with rapidly changing requirements and large asset bases, face three major challenges.

Pressure to streamline operations.

Demand is escalating, but cycle times remain long. Telcos are a prime example: while demand for mobile services has exploded, it can still take up to 12 months in some markets to deploy services in new areas. Contrast that with product launches enabled by agile methodologies, where new releases take weeks, rather than months—or even years.

Labor-intensive core processes.

Core enterprise operations such as research, design, development, and implementation still take considerable resources and time. Telco network operations, for instance, account for between 20 and 40 percent of total telco operational expenditure and 20 to 30 percent of the total workforce.

Outmoded approaches to process design.

When companies attempt to shoehorn new technologies into old approaches and processes, they often find they cannot realize the full value they hoped to achieve. Digital tools and technologies have so radically changed products and services, and how they are conceived and delivered, that organizations instead face a fundamental rethinking of how processes are designed.

Overcoming these challenges can be difficult for many reasons.

Decision makers may not see the potential impact of a change program, or know where to start, or how to prioritize implementation. The fragmented ownership of processes or activities compounds the inertia. For some companies, the problem isn't getting started, but rather sustaining the improvement: they may claim success prematurely, leaving them in pilot purgatory. For others, attempting to resolve these complexities from their current base hampers their thinking and creativity.

How to spur fresh thinking

It's hard to think outside the box when the box remains your only frame of reference. Zero-based design works by tackling institutionalized ways and ingrained thinking and injecting fresh perspectives, so that organizations can make the most of the latest tech-enabled and digital solutions. This is possible by taking new approaches even in the most complex organizational structures.

Eliminate all existing constraints to arrive at an optimal, "sunny day" scenario.

Many processes instituted years ago in a different operating environment may rely on technologies that are now out of date. Zero-based design starts by revisiting old assumptions to design the most optimal process possible today. The result is the "sunny day" scenario: it represents the most dramatic improvements conceivable in efficiency and effectiveness, such as a 50 percent reduction in lead times across the board.

Getting to the sunny day calls for bringing fresh ideas for each key process and its component activities—including opportunities for digitization, analytics, and automation across the value chain—and then stepping back to see how those ideas might work together (Exhibit 1).

Root out the redundant, the no-longer-relevant, and the unnecessary.

The next step is to eliminate procedures that are duplicative or no longer add value. Some, such as requiring paper signatures when electronic equivalents have the same legal effect, are fairly easy to see. But it's equally important to scrutinize dependencies that may no longer be relevant, as doing so can identify activities that could be carried out in parallel rather than sequentially. When a customer's transaction history is instantly available, there's little need to hold up processing a new order while standard sales terms are reconfirmed.

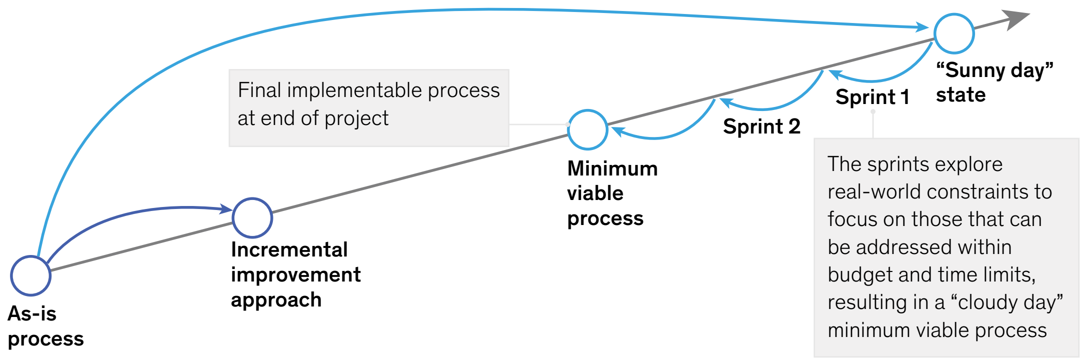
Tap inspiration and expertise from multiple quarters to address constraints.

Relying on the very people who are carrying out today's processes to devise new solutions is often impractical. Yet it's often surprisingly

Exhibit 1

Zero-based design's reach exceeds that of traditional improvement approaches.

Traditional approaches take significant time and effort to:
- Detail the many levels of the as-is process
- Identify and remove waste
- Implement incremental improvements



Zero-based design is an **outcome-focused approach** that involves:
- Starting with an optimal clean-sheeted process
- Iteratively reintroducing and addressing constraints based on what is necessary to deliver the process in reality

difficult to expect someone stepping into a new role to envision a new way of executing. With ZBD, companies look for inspiration and ideas from other areas in the organization, from other companies, and even from outside the industry to learn how others have solved analogous problems. Technical and other experts can help examine how people execute each activity.

Emphasize collaboration.

Working together, especially in a cross-functional way, can spark creative problem solving and orient everyone around the end goal, rather than around the interests of their functional area. Taking a value-chain perspective helps by enabling people to see how their work contributes to an entire process—and how their current practices may complicate steps further down the line if, for example, the data they produce must be reformatted for another function to use it effectively.

Add constraints sequentially and only at the end to arrive at a "cloudy day" scenario.

Zero-based design keeps the process realistic and flexible enough to accommodate undesirable outcomes. It does so by following a clear gating process in which the constraints that truly cannot be addressed are added only at the end of the process. This sequence supports unconstrained, creative thinking in the early stages of zero-based design, thus producing a final outcome—a minimum viable process, or MVP—that that usually ends up significantly better than an incremental approach can achieve.

Four steps to streamline and redesign

With ZBD as the cornerstone, a four-step methodology draws on agile principles (such as continuously testing, iterating, and refining ideas) to offer a repeatable, scalable means for revamping internal processes (Exhibit 2).

- ***Understand and simplify.*** First, identify and prioritize work, which includes managing demand and getting rid of unnecessary tasks. This step involves mapping activities

Exhibit 2

The four steps of zero-based design help scale operations sustainably.

Understand and simplify	Orchestrate and digitize	Automate and integrate	Reorganize and empower
Understand	**Orchestrate**	**Automate**	**Reorganize**
Synthesize and prioritize the desired outcomes Use walkthroughs, interviews, data mining, and process-discovery tools to understand current state	Reimagine processes through agile sprints, progressively adding and addressing constraints Develop blueprint of scenarios and their impact	Configure bots to process activities that follow simple rules Train learning algorithms for activities that follow complex, pattern-based rules	Redesign organizations, redeploy capacity, and optimize cost for residual work
Simplify	**Digitize**	**Integrate**	**Empower**
Rationalize and eliminate non-value-added activities Isolate drivers of complexity and incon-sistency (eg, handoffs, channel mix)	Explore applying natural-language processing, optical character recognition, webforms, APIs, and other tools to convert analog, unstructured data flows to digital, structured ones	Integrate data sources and stream-line data flows Integrate output from automation into re-imagined processes	Build new capabilities and empower with access to low/no-code automation platforms Build competencies and consistency across organization through center of excellence (CoE)

that will advance the organization toward the outcome it seeks, while eliminating those actions that add little value or that are sources of undue complexity. Mapping needn't be an arduous, manual effort: technology-enabled methods, from process mining to process discovery, make mapping much easier and more robust than it once was.

- ***Orchestrate and digitize.*** Redesign processes and workflow using zero-based approaches. Seek points along the value chain that are ripe for digitization and develop a range of options, from an MVP to a finished, ideal-state result. This step also entails deploying technologies and digitizing both structured and unstructured data.

- ***Automate and integrate.*** Review options to automate those parts of the process that are digitized, either in rule-based ways through the use of bots or workflow tools, or pattern-based ways via algorithms and analytics. Integrate data sources and streamline data flows, and integrate the outputs from the newly automated activities into the redesigned processes.

- ***Reorganize and empower.*** For those elements of the process that must remain manual, redesign organization structures, redeploy capacity, and seek efficiencies by, for example, outsourcing these activities. Then, build new capabilities and empower people with intuitive tools, such as low- or no-code automation platforms, so they can develop their own shortcuts to make their work easier.

To illustrate how ZBD works, consider the case of a large telco that urgently needed to expand its mobile network capacity, but deployment was taking anywhere from 12 to 18 months. The company's ultimate objective was threefold: eliminate the multiple bottlenecks that plagued its operations, reduce the protracted cycle time, and stay within budget.

Teams drawn from all relevant areas collaborated through multiple workshops to analyze and brainstorm a new way. First, they broke down the steps for a typical deployment, noting how much time each stage took, and seeing what the work stream looked like in order to understand process dependencies.

Overall, the teams identified five primary roadblocks:

- Long procurement lead times
- The lack of a long-range view, which impeded early procurement of long-lead-time items as well as site approvals and

negotiations

- A lengthy permitting process
- A mostly manual documentation process, which left the company without a single authoritative source of project documentation
- Multiple acceptance tests, rather than a single, full-site test

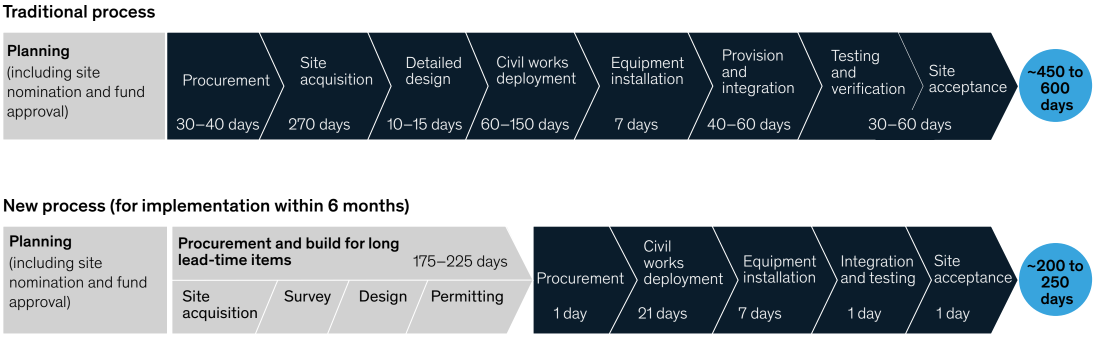
Compounding the delays, network-deployment steps were rigidly sequential, with teams having to wait for one step to be completed before proceeding to the next.

The most important simplification was to reduce dependencies and unnecessary sequencing so that more activities could proceed in parallel. For example, standardizing and initiating procurement could begin at the same time as site design and the permitting process. Digitizing site identification, through analytics and satellite mapping, could cut delays for current and future projects by establishing an electronic inventory of potential locations. Wherever possible, teams also sought opportunities for advance planning.

This zero-based approach allowed the process-redesign team to arrive first at a sunny-day

Exhibit 3

A telco used zero-based design to cut cycle time by more than 50 percent.



[1] Assumes 6 working days in a week; ~5 weeks in calendar days.
Source: Zero-based design workshop

option with no constraints, and then, after adding progressively more constraints—such as the need to purchase the land underneath proposed towers—it arrived at an MVP.

The traditional process-improvement methods that it had tried in the past could shave only three to five weeks off of the total time, for a total reduction of only 4 percent. Zero-based design's sunny-day process projected a time reduction of more than two-thirds. A more realistic MVP, which accounted for more constraints, still cut the full cycle time by about half, or six to eight months—with additional improvement possible as experience began to yield further efficiencies (Exhibit 3).

Institutionalizing ZBD through a center of excellence

Zero-based design (or redesign) is not a one-and-done effort; it's an iterative process by which leaders can constantly pressure-test and rethink both their processes and their goals as conditions and needs change. A ZBD center of excellence (CoE) is an efficient and effective way to extend ZBD throughout an entire organization, both for internal processes as well as for external, customer-facing journeys (Exhibit 4).

To illustrate how a center of excellence helps embed ZBD in an organization, consider the experience of a financial institution that needed to rework outdated processes and become more customer-centric. To withdraw money from an account, a customer had to fill out several forms (including providing redundant data) and then wait at least 20 days for the funds to hit their bank account. The customer had to repeat those same steps every month in order to access a continuous stream of income.

Meanwhile, amid customers' rapidly changing expectations for digital services, the company's sales started to fall. Leaders recognized that reinventing processes with the customer in mind was a priority—not only to boost customer satisfaction, but to jump-start a much-needed performance turnaround fueled by efficiency gains and accelerated growth.

To execute this shift, leaders set up a ZBD center of excellence with three purposes.

1. ***Foster a better understanding of endusers.*** The CoE was in charge of conducting in-depth user research to explore their level of satisfaction with products and services and their chief pain points. The CoE was also responsible for helping departments understand how to apply data-based insights from the research to improve products and services. To raise awareness, the CoE launched formal communication initiatives (such as holding lunch-and-learn events), trained middle managers in ZBD, and helped functional leaders define a user-centric vision with the supporting success metrics that would guide the reinvention process over the long term.

2. ***Create step-change improvements by scaling capabilities.*** The CoE standardized and scaled the ZBD approach, facilitating sessions across departments to help teams redesign their processes and services. The CoE deployed its resources on both a push and pull basis—supporting not just the corporate center's transformation roadmap, but also areas in the organization that wanted to overhaul their operations proactively. The CoE created and maintained a set of standard, reusable assets to hasten and amplify ZBD's dissemination throughout the company, including standardized workshop templates, a library of design standards, and a collection of inside- and outside-the-industry innovation tactics.

3. ***Ensure continuous reinvention of operations.*** Beyond its initial engagement within a department, the CoE assigns a designer to support operational teams over the long term to assess, test, and refresh their goals and the approaches they are using, so that the processes will function as intended. An integral part of the CoE's mission is helping teams uncover new insights on end-user preferences and fueling reinvention.

With ZBD as its backbone, the CoE spurred breakthrough improvements in technologies and process redesign. Over a span of nine months, the company launched a multi-channel service offering, gave customers the ability to withdraw funds automatically over the phone or online, and reduced cycle times by up to 90 percent and unit cost by up to 30 percent.

Zero-based design's disciplined, transparent approach helps companies streamline and accelerate processes using a combination of tactics: weeding out the unnecessary, seeking solutions from beyond the industry, automating and digitizing activities and data, and reorganizing people and bolstering capabilities. But there are tradeoffs. Adopting ZBD requires resources, especially an open-minded sponsor who is willing to challenge conventional thinking and experiment. But for those companies willing to commit, ZBD can deliver a high return on investment—not only in savings but in the ability to capture new opportunities and build resiliency for the future.

ABOUT THE AUTHOR(S)

Charles-Henri Marque is an associate partner in McKinsey's Chicago office, where **Rohit Panikkar** is a partner; **Sai Tunuguntla** is a partner in the Singapore office.

The authors wish to thank Archy Chankawee, Thomas Carlsen, and Rob Whiteman for their contributions to this article.

Addressing climate change in a post-pandemic world

The coronavirus crisis holds profound lessons that can help us address climate change—if we make greater economic and environmental resiliency core to our planning for the recovery ahead.

By Dickon Pinner, Matt Rogers, and Hamid Samandari

A ferocious pandemic is sweeping the globe, threatening lives and livelihoods at an alarming rate. As infection and death rates continue to rise, resident movement is restricted, economic activity is curtailed, governments resort to extraordinary measures, and individuals and corporations scramble to adjust. In the blink of an eye, the coronavirus has upended the world's operating assumptions. Now, all attention is focused on countering this new and extreme threat, and on blunting the force of the major recession that is likely to follow.

Amid this dislocation, it is easy to forget that just a few short months ago, the debate about climate change, the socioeconomic impacts it gives rise to, and the collective response it calls for were gaining momentum. Sustainability, indeed, was rising on the agenda of many public- and private-sector leaders—before the unsustainable, suddenly, became impossible to avoid.

Given the scope and magnitude of this sudden crisis, and the long shadow it will cast, can the world afford to pay attention to climate change and the broader sustainability agenda at this time? Our firm belief is that we simply cannot afford to do otherwise. Not only does climate action remain critical over the next decade, but investments in climate-resilient infrastructure and the transition to a lower-carbon future can drive significant near-term job creation while increasing economic and environmental resiliency. And with near-zero interest rates for the foreseeable future, there is no better time than the present for such investments.

To meet this need and to leverage this opportunity, we believe that leaders would benefit from considering three questions:

- What lessons can be learned from the current pandemic for climate change?
- What implications—positive or negative—could our pandemic responses hold for climate action?
- What steps could companies, governments, and individuals take to align our immediate pandemic response with the imperatives of sustainability?

What follows is our attempt at providing some initial answers to these questions, in the hope that they will inspire ideas and actions that help connect our immediate crisis response with priorities for recovery.

Potential lessons from the current pandemic

Understanding the similarities, the differences, and the broader relationships between pandemics and climate risk is a critical first step if we are to derive practical implications that inform our actions.

Fundamental similarities

Pandemics and climate risk are similar in that they both represent *physical shocks*, which then translate into an array of socioeconomics impacts. By contrast, financial shocks—whether bank runs, bubble bursts, market crashes, sovereign defaults, or currency devaluations—are largely driven by human sentiment, most often a fear of lost value or liquidity. Financial shocks originate from within the financial system and are frequently remedied by restoring confidence. Physical shocks, however, can only be remedied by understanding and addressing the underlying physical causes. Our recent collective experience, whether in the public or the private sector, has been more often shaped by financial shocks, not physical ones. The current pandemic provides us perhaps with a foretaste of what a full-fledged climate crisis could entail in terms of simultaneous exogenous shocks to supply and demand, disruption of supply chains, and global transmission and amplification mechanisms.

Pandemics and climate risk also share many of the same attributes. Both are *systemic*, in that their direct manifestations and their knock-on effects propagate fast across an interconnected world. Thus, the oil-demand reduction in the wake of the initial coronavirus outbreak became a contributing factor to a price war, which further exacerbated the stock market decline as the pandemic grew. They are both *nonstationary*, in that past probabilities and distributions of occurrences are rapidly shifting and proving to be inadequate or insufficient for future projections. Both are *nonlinear*, in that their socioeconomic impact grows disproportionally and even catastrophically once certain thresholds are breached (such as hospital capacity to treat pandemic patients). They are both *risk multipliers*, in that they highlight and exacerbate hitherto untested vulnerabilities inherent in the financial and healthcare systems and the real economy. Both are *regressive*, in that they affect disproportionally the most vulnerable populations and subpopulations of the world. Finally, neither can be considered as a "black swan," insofar as experts have consistently warned against both over the years (even though one may argue that the debate about climate risk has been more widespread). And the coronavirus outbreak seems to indicate that the world at large is equally ill prepared to prevent or confront either.

Furthermore, addressing pandemics and climate risk requires the same fundamental shift, from optimizing largely for the *shorter-term performance* of systems to ensuring equally their *longer-term resiliency*. Healthcare systems, physical assets, infrastructure services, supply chains, and cities have all been largely designed to function within a very narrow band of conditions. In many cases, they are already struggling to function within this band, let alone beyond it. The coronavirus pandemic and the responses that are being implemented (to the tune of several trillion dollars of government stimulus as of this writing) illustrate how expensive the failure to build resiliency can ultimately prove. In climate change as in pandemics, the costs of a global crisis are bound to vastly exceed those of its prevention.

Finally, both reflect "tragedy of the commons" problems, in that individual actions can run counter to the collective good and deplete a precious, common resource. Neither pandemics nor climate hazards can be confronted without true *global coordination and cooperation*. Indeed, despite current indications to the contrary, they may well prove, through their accumulated pressures, that boundaries between one nation and another are much less important than boundaries between problems and solutions.

Key differences

While the similarities are significant, there are also some notable differences between pandemics and climate hazards.

A global public-health crisis presents *imminent, discrete, and directly discernable dangers,* which we have been conditioned to respond to for our survival. The risks from climate change, by contrast, are gradual, cumulative, and often distributed dangers that manifest themselves in degrees and over time. They also require a present action for a future reward that has in the past appeared too uncertain and too small given the implicit "discount rate." This is what former Bank of England Governor Mark Carney has called the "tragedy of the horizon."[1]

Another way of saying this is that the timescales of both the occurrence and the resolution of pandemics and climate hazards are different. The former are often measured in weeks, months, and years; the latter are measured in years, decades, and centuries. What this means is that a global climate crisis, if and when ushered in, could prove far lengthier and far more disruptive than what we currently see with the coronavirus (if that can be imagined).

Finally, pandemics are a case of *contagion* risk, while climate hazards present a case of *accumulation* risk. Contagion can produce perfectly correlated events on a global scale (even as we now witness), which can tax the entire system at once; accumulation gives rise to an increased likelihood of severe, contemporaneous but not directly correlated events that can reinforce one another. This has clear implications for the mitigation actions they each call for

Broader relationships

Climate change—a potent risk multiplier—can actually contribute to pandemics, according to researchers at Stanford University and elsewhere.[2] For example, rising temperatures can create favorable conditions for the spread of certain infectious, mosquito-borne diseases, such as malaria and dengue fever, while disappearing habitats may force various animal species to migrate, increasing the chances of spillover pathogens between them. Conversely, the same factors that mitigate environmental risks—reducing the demands we place on nature by optimizing consumption, shortening and localizing supply chains, substituting animal proteins with plant proteins, decreasing pollution—are likely to help mitigate the risk of pandemics.

The environmental impact of some of the measures taken to counter the coronavirus pandemic have been seen by some as a full-scale illustration of what drastic action can produce in a short amount of time. Satellite images of vanishing pollution in China and India during the COVID-19 lockdown are a case in point. Yet this (temporary) impact comes at tremendous human and economic cost. The key question is how to find a paradigm that provides at once environmental and economic sustainability. Much more easily said than done, but still a must-do.

What could happen now?

While we are at the initial stages of a fast-unfolding crisis, we can already start seeing how the pandemic may influence the pace and nature of climate action, and how climate action could accelerate the recovery by creating jobs, driving capital formation, and increasing economic resiliency.

Factors that could support and accelerate climate action

For starters, certain temporary adjustments, such as teleworking and greater reliance on digital channels, may endure long after the lockdowns have ended, reducing transportation demand and emissions. Second, supply chains may be repatriated, reducing some Scope 3 emissions (those in a company's value chain but not associated with its direct emissions or the generation of energy it purchases). Third, markets may better price in risks (and, in particular, climate risk) as the result of a greater appreciation for physical and systemic dislocations. This would create the potential for additional near-term business-model disruptions and broader transition risks but also offer greater incentives for accelerated change.

1 "Breaking the tragedy of the horizon—climate change and financial stability—speech by Mark Carney," Bank of England, September 29, 2015, bankofengland.co.uk.

2 See Andrew Winston, "Is the COVID-19 outbreak a black swan or the new normal?," MIT Sloan Management review, March 16, 2020; and Rob Jordan, "How does climate change affect disease?," Stanford Earth, School of Earth, Energy & Environment, March 15, 2019.

There may, additionally, be an increased public appreciation for scientific expertise in addressing systemic issues. And, while not a foregone conclusion, there may also be a greater appetite for the preventive and coordinating role of governments in tackling such risks. Indeed, the tremendous costs of being the payor, lender, and insurer of last resort may prompt governments to take a much more active role in ensuring resiliency. As for the private sector, the tide may be turning toward "building back better" after the crisis.[3]

Moreover, lower interest rates may accelerate the deployment of new sustainable infrastructure, as well as of adaptation and resilience infrastructure—investments that would support near-term job creation. And lastly, the need for global cooperation may become more visible and be embraced more universally.

If past is prologue, both the probability of such shifts and their permanence are likely to be proportional to the depth of the current crisis itself.

Factors that may hamper and delay climate action

Simultaneously, though, very low prices for high-carbon emitters could increase their use and further delay energy transitions (even though lower oil prices could push out a number of inefficient, high-emission, marginal producers and encourage governments to end expensive fuel-subsidy regimes). A second crosscurrent is that governments and citizens may struggle to integrate climate priorities with pressing economic needs in a recovery. This could affect their investments, commitments, and regulatory approaches—potentially for several years, depending on the depth of the crisis and hence the length of the recovery. Third, investors may delay their capital allocation to new lower-carbon solutions due to decreased wealth. Finally, national rivalries may be exacerbated if a zero-sum-game mentality prevails in the wake of the crisis.

What should be done?

In this context, we believe all actors—individuals, companies, governments, and civil society—will have an important role.

For governments, we believe four sets of actions will be important. First, build the capability to model climate risk and to assess the economics of climate change. This would help inform recovery programs, update and enhance historical models that are used for infrastructure planning, and enable the use of climate stress testing in funding programs. Second, devote a portion of the vast resources deployed for economic recovery to climate-change resiliency and mitigation. These would include investments in a broad range of sustainability levers, including building renewable-energy infrastructure, expanding the capacity of the power grid and increasing its resiliency to support increased electrification, retrofitting buildings, and developing and deploying technologies to decarbonize heavy industries. The returns on such investments encompass both risk reduction and new sources of growth. Third, seize the opportunity to reconsider existing subsidy regimes that accelerate climate change. Fourth, reinforce national and international *alignment and collaboration* on sustainability, for inward-looking, piecemeal responses are by nature incapable of solving systemic and global problems. Our experiences in the weeks and months ahead could help inform new paths toward achieving alignment on climate change.

For companies, we see two priorities. First, seize the moment to decarbonize, in particular by prioritizing the retirement of economically marginal, carbon-intensive assets. Second, take a systematic and through-the-cycle approach to building resilience. Companies have fresh opportunities to make their operations more resilient and more sustainable as they experiment out of necessity—for example, with shorter supply chains, higher-energy-efficiency manufacturing and processing, videoconferencing instead of business travel, and increased digitization of sales and marketing. Some of these practices could be expedient and economical to continue, and might become important components of a

[3] María Mendiluce, "How to build back better after COVID-19," World Economic Forum, April 3, 2020, weforum.org

company-level sustainability transformation—one that accompanies the cost-efficiency and digital-transformation efforts that are likely to be undertaken across various industries in the wake of the pandemic.

When it comes to resilience, a major priority is building the capability to truly understand, qualitatively and quantitatively, corporate vulnerabilities against a much broader set of scenarios, and particularly physical events. In that context, it will also be important to model and prepare for situations where multiple hazards would combine: it is indeed not difficult to imagine a pandemic resurgence coinciding with floods or fires in a given region, with significant implications for disaster response and recovery. The same holds true for public entities, where resilience thinking will have to take greater account of the combination and correlation of events.

For all—individuals, companies, governments, and civil society—we see two additional priorities. First, use this moment to raise *awareness* of the impact of a climate crisis, which could ultimately create disruptions of great magnitude and duration. That includes awareness of the fact that physical shocks can have massive nonlinear impacts on financial and economic systems and thus prove extremely costly. Second, build upon the *mindset and behavioral shifts* that are likely to persist after the crisis (such as working from home) to reduce the demands we place on our environment—or, more precisely, to shift them toward more sustainable sources.

By all accounts, the steps we take in the decade ahead will be crucial in determining whether we avoid runaway climate change. An average global temperature rise above 1.5 or 2°C would create risks that the global economy is not prepared to weather. At an emission rate of 40 to 50 gigatons of CO2 per year, the global economy has ten to 25 years of carbon capacity left. Moving toward a lower-carbon economy presents a daunting challenge, and, if we choose to ignore the issue for a year or two, the math becomes even more daunting. In short, while all hands must be on deck to defeat the coronavirus and to restart the economy, to save lives and livelihoods, it is also critical that we begin now to integrate the thinking and planning required to build a much greater economic and environmental resiliency as part of the recovery ahead.

ABOUT THE AUTHOR(S)

Dickon Pinner and **Matt Rogers** are senior partners in McKinsey's San Francisco office, and **Hamid Samandari** is a senior partner in the New York office.

McKinsey Accelerate

The most fundamental skill: Intentional learning and the career advantage

Learning itself is a skill. Unlocking the mindsets and skills to develop it can boost personal and professional lives and deliver a competitive edge.

By Lisa Christensen, Jake Gittleson, and Matt Smith

The call for individuals and organizations alike to invest in learning and development has never been more insistent. The World Economic Forum recently declared a reskilling emergency as the world faces more than one billion jobs transformed by technology. Even before COVID-19 emerged, the world of stable lifetime employment had faded in the rearview mirror, replaced by the expectation that both executives and employees must continually refresh their skills. The pandemic has only heightened the urgency of doubling down on skill building, either to keep up with the speed of transformation now underway or to manage the particulars of working in new ways.

Despite this context—and the nearly constant refrain for people to adapt to it by becoming lifelong learners—many companies struggle to meet their reskilling goals, and many individuals struggle to learn new and unfamiliar topics effectively. We believe that an underlying cause is the fact that so few adults have been trained in the core skills and mindsets of effective learners. Learning itself is a skill, and developing it is a critical driver of long-term career success. People who have mastered the mindsets and skills of effective learning can grow faster than their peers and gain more of the benefits from all the learning opportunities that come their way.

This article, supported by research and our decades of experience working as talent and learning professionals, explores the core mindsets and skills of effective learners. People who master these mindsets and skills become what we call intentional learners: possessors of what we believe might be the most fundamental skill for professionals to cultivate in the coming decades. In the process they will unlock tremendous value both for themselves and for those they manage in the organizations where they work.

Unlocking intentionality

Formal learning opportunities account for only a small percentage of the learning a professional needs over the course of a career. Everyday experiences and interactions offer tremendous learning opportunities, but only if you intentionally treat every moment as a learning opportunity. While intentional learners embrace their need to learn, for them learning is not a separate stream of work or an extra effort. Instead, it is an almost unconscious, reflexive form of behavior. Learning is the mode and mindset in which intentional learners operate all the time. Although they are experiencing all the same daily moments anyone else might, they get more out of those opportunities because everything—every experience, conversation, meeting, and deliverable—carries with it an opportunity to develop and grow.

Each of us can become an intentional learner. There are two critical mindsets (or things you need to believe) and five core practices (or behavior that collectively reorients you toward learning in everything you do). It's not as hard as it sounds; in fact, you're probably doing some of these already.

Foster learning by adjusting two critical mindsets

Mindsets are powerful, often exerting tremendous influence on behavior, sometimes unconsciously. When built on a foundation of self-efficacy—the belief that your actions can help you achieve desired outcomes[1] —two mindsets serve as especially powerful fuel for intentional learners: a growth mindset and a curiosity mindset. While some people may have a natural proclivity to these mindsets, the important thing is that they are neither fixed nor immovable. In fact, part of their power is that they can be developed.

Adopt a growth mindset

Stanford psychologist Carol Dweck's popular work on growth suggests that people hold one of two sets of beliefs about their own abilities: either a fixed or a growth mindset. A fixed mindset is the belief that personality characteristics, talents, and abilities are finite or fixed resources; they can't be altered, changed, or improved. You simply are the way you are. People with this mindset tend to take a polar view of themselves—they consider themselves either intelligent or average, talented or untalented, a success or a failure. A fixed mindset stunts learning because it eliminates permission not to know something, to fail, or to struggle. Writes Dweck: "The fixed mindset doesn't allow people the luxury of becoming. They have to already be."[2]

In contrast, a growth mindset suggests that you can grow, expand, evolve, and change. Intelligence and capability are not fixed points but instead traits you cultivate. A growth mindset releases you from the expectation of being perfect. Failures and mistakes are not indicative of the limits of your intellect but rather tools that inform how you develop. A growth mindset is liberating, allowing you to find value, joy, and success in the process, regardless of the outcome.

Cultivating a growth mindset can begin with shifting your inner dialogue from beliefs about your ability (a fixed mindset) to beliefs about your opportunities and needs (a growth mindset)—for example, from "I'm terrible at giving presentations" to "I need more practice presenting in front of others." Similarly, "I'm not good enough to be promoted to supervisor" might become "I need some additional experience before I'll be ready for promotion." Simple restatements have a dramatic impact on what you believe about your own abilities. A fixed mindset often runs deep; it may take constant practice to reframe your default thoughts.

Feed your curiosity

Curiosity, the engine of intentional learning, can be cultivated, even in those who don't consider themselves naturally curious. Think of curiosity as priming the pump. It's what gets your learning started. Curiosity is awareness, an openness to ideas, and an ability to make connections between disparate concepts.

The research tells us that curiosity matters for three primary reasons. First, inspiration is strongly correlated with an intrinsic desire to learn. Curiosity sparks inspiration. You learn more and more frequently because you are curious. Second, curiosity marks the beginning of a virtuous cycle that feeds your ability as a self-directed learner. Finally, research suggests that curiosity doesn't diminish with age, so it can serve you at any point in your career. Although your learning methods will change over time, curiosity will keep the spark of

[1] Albert Bandura, "Self-efficacy: Toward a unifying theory of behavioral change," Psychological Review, 1977, Volume 84, Number 2, pp. 191–215.

[2] Carol S. Dweck, Mindset: The New Psychology of Success, New York: Random House, 2016, p. 25.

motivation alive.[3]

Consider a few practices to strengthen your curiosity muscle:

- ***Face your fears.*** Fear is a significant barrier to curiosity; confronting those fears can be an important way to unlock learning skills. Spend a bit of time reflecting. What prevents you from asking questions in meetings? What keeps you from trying new things? What makes you reluctant to accept new assignments? Once you name what you are afraid of, you can decide how to address it.
- ***Seek novel experiences and ideas.*** New environments, new experiences, and exposure to new groups of people can all spark curiosity. Your search for the new can be as dramatic as moving to a new country or as simple as watching a documentary on a topic you don't know anything about. The key is to avoid stagnation by feeding your mind with something new.
- ***Focus on what you love.*** Your curiosity doesn't have to be confined to your career—cultivating the muscle in anything you do will serve all parts of your life. Consider collecting skills and interests outside your day job. Maybe you love podcasts, build engines, coach a sports team, or play an instrument in your spare time. Whatever you love to do, do more of it.

Whatever form curiosity takes, it helps you stay open and aware, broadens your perspective, and readies you to learn. Because it looks different in every person, the best advice is to just start. Get curious. Ask questions. Find something you are interested in and try it. When you become tired, try something else, but don't stop trying things.

Practice, practice, practice: The five core skills of intentional learners

A growth mindset and active curiosity are the fuel of intentional learning. But when you develop your learning muscles, it's also important to modulate these forces and direct their energy effectively. Five best-practice behaviors help intentional learners get the most out of their experiences: setting goals, protecting time for learning, actively seeking feedback, conducting deliberate practice, and reflecting to evaluate yourself and determine your progress.

Set small, clear goals

Intentional learners are anchored in tangible goals, so they can use curiosity as an effective tool instead of a source of distraction. Learning-science scholars draw a bright line between a learner's goal and the ultimate "stickiness" of learning. Learning takes hold when you can retain and use what you have learned. The stickiest kind of learning happens when you are trying to accomplish something you care about.

Consider these best practices for goal setting:

- ***Set a goal that matters to you.*** Goals are a source of energy and motivation. Yours may be a career goal (for example, becoming a chief technology officer) or something more skill specific—say, improving your presentation skills. Either is fine if you really care about accomplishing that goal. You might also consider your goals through the lens of what is important to your organization: what of the emerging opportunities or challenges it faces excite you, and how you can shape a goal for yourself that allows you to embrace them (see sidebar "Creating a culture of intentional learning").
- ***Make the goal concrete.*** Be specific and explicit about what you will accomplish, but also take time to articulate why this goal matters to you. It can be fun to learn for learning's sake (what researchers call epistemic curiosity), but for many people this doesn't provide the same kind of anchor for learning as a goal directed at solving a problem or facing a challenge. "I'd like to learn more about technology," for example, won't give you the same kind of focused

[3] Albert Wiswell and Thomas G Reio Jr., "Field investigation of the relationship among adult curiosity, workplace learning, and job performance," *Human Resource Development Quarterly*, Volume 11, Number 1, Spring 2000.

direction as "I'd like to be a great thought partner for digital experts and be able to solve problems with them."

— ***Adopt a 'once in a career' mindset.*** The Greek philosopher Heraclitus said no one "ever steps in the same river twice," for neither the river nor the person remains unchanged by the passage of time. Perhaps you weren't excited about helping your entire team to work remotely or optimizing all your customer-service processes for digital, but this also might be the only moment in your career when you have that opportunity. A once-in-a-career mindset that both enjoys and learns from every opportunity (because it may be the only such opportunity in your career) is a powerful reframing technique. Rather than letting unique opportunities go to waste, setting goals with this mindset helps you squeeze every drop of learning from even the most challenging circumstances.

Remove distractions

Although intentional learners face the same distractions and expectations their peers do, they protect time for learning. Because no set of decisions is more personal than how you use your time and balance your responsibilities, there isn't a single formula for making time to learn. However, the strategies of intentional learners share three traits to make and

Creating a culture of intentional learning

We've seen intentional learners blossom in organizations across all industries and firmly believe that any organization can build an intentional-learning culture. In every case, the leader played a critical role in fostering the culture that allowed learning to flourish. We advise leaders to embrace a few key practices:

1. ***Model and teach intentional-learning practices.*** Leaders who value curiosity and learning have teams that value those things, too. To build an intentional-learning culture, you must visibly invest meaningful time in your own development, letting go of the idea of the leader as expert and embracing the idea of the leader as learner. As you learn, proactively teach the skills and mindsets of intentional learners.

2. ***Make high-quality learning and development planning part of your culture and processes.*** Have a consistent planning cadence tied to your organization's strategic goals. Use formal learning as a companion to intentional-learning practices. Emphasize the need for intentional learning and create space for it in everyday practice. The spectrum of approaches can range from ensuring that employees get on-the-job mentoring to making time for coaching and feedback conversations to providing specific learning times that replace day-to-day work. Regardless of industry, intentional-learning cultures are built when leaders give voice to the importance of learning and ensure that employees have solid learning opportunities.

3. ***Beware of mixed messages.*** Have you ever sent employees to training and then complained about the increased workload their absence created? Or promoted the importance of curiosity while simultaneously imposing more top-down rules for how work should be done? While you might have thought you were valuing learning, you were actually signaling that it isn't as important as daily productivity and, perhaps, that you even begrudge people's desire to learn. Intentional-learning cultures thrive when the words of leaders match their actions.

4. ***Curate but don't spoon feed.*** Help people set goals by asking them what they care about and how they want to grow. Give them ideas when they seem stuck or stagnant. Encourage and empower them to grow, providing opportunities and access to experts as needed, but don't remove the personal accountability all of us have for directing our own development.

protect time for learning in a busy day:

- ***Carefully evaluate yourself and make a plan.*** Start with an honest self-analysis of what we call your personal operating model. What choices are you making about your priorities, roles, time, and energy? Do your choices align with the goals that you care about? Consider activities you should add but, more important, consider what you must eliminate to meet your goals.
- ***Be mindful in the moment.*** Even with the best intentions, things will get in the way of learning. Ready yourself for the deeper work of learning by minimizing distractions in your environment and managing your energy. Separate yourself from your devices. Take a walk before you start a long period of focus. Set an alarm reminding you to stretch every hour. Set up your workspace to eliminate distractions.
- ***Conduct experiments and be flexible.*** It may take time and iteration to find what works for you. Consider small experiments and reflect on how successfully they help you reinvest some of your time. Nothing works perfectly but, perhaps more important, nothing works forever. Commit yourself to being intentional about learning and protecting time, but be open to flexing specific strategies as your circumstances change.

Actively seek actionable feedback

Feedback is a familiar principle to most professionals; even when we don't love receiving it, we understand its benefits. Intentional learners are different because they not only seek feedback but also pursue it voraciously. Without it, they recognize, they may have blind spots that halt their progress. As you seek feedback, do these things:

- ***Prime others.*** Focus people on what you are working on. After an important meeting, many of us have probably asked a colleague, "What did you think?" It's very different to say to someone before a meeting, "I'm working on managing my reactions when my ideas are challenged. I'd love for you to watch for that and give me feedback after the meeting." Broadcasting what you are working on increases your chances of receiving tailored, actionable feedback.
- ***Press for details.*** Feedback is most helpful when it's actionable, and actionable feedback most often comes from details and examples. If someone comments that you seemed defensive during a meeting, probe for more information. Did my defensiveness show up in my facial expressions or body language? Did my tone of voice change? What did I say that suggested this reaction?
- ***Decide how to treat feedback.*** This might seem surprising, but how you judge your ability to handle and act on feedback plays a critical role in the way an intentional learner responds to it. You may actively seek feedback, but you do not have to act on (or even believe) every comment. Feedback is data you collect to help you improve, but in the end you are in control of what to do with it.
- ***Seek experts.*** It is difficult to grow when you don't know what good looks like. By seeking out someone who already has expertise—say, an executive who has achieved the role you aspire to rise to or someone who is deeply skilled in the area in which you are interested—you have a pattern for how to advance. Expertise is made up of nuanced skills. An expert can give you insights that a peer simply cannot.

Practice deliberately in areas you want to grow in

Practice, especially practice in context, is absolutely critical to learning. The pattern of trying, failing, refining your approach, and trying again is at the heart of building all behavioral skills. After studying the development of expertise across varied domains, such as athletics, aviation, medicine, and music, psychologist K. Anders Ericsson determined that there is a "scientific approach to developing expertise" and that "consistently and overwhelmingly, the evidence showed that experts are always made, not born."[4]

[4] Edward T Cokely, K. Anders Ericsson, and Michael J. Prietula, "The making of an expert," Harvard Business Review, July–August 2007, hbr.org.

Exhibit

Deliberate practice may not be what it seems.

People often …	Instead, you should …
… make the focus of practice too expansive. You set a goal to improve your presentation skills, but this skill involves so many nuanced elements that you're unlikely to improve markedly without a more detailed articulation of the problem. Simply presenting in a hundred different situations may help reduce your nervousness but won't do much to build your skills.	**… narrow your focus to the nuances.** What is it about your presentation skills that needs practice? Perhaps you need to break the habit of using filler words when presenting. Focusing on a detailed skill will help you make recognizable and significant progress toward your goal.
… spend too much time on the same skill. When you're good at something, it generally feels good to keep doing it. Seeing improvements may tempt you to keep practicing the same skill. But once you've started to improve, practicing the same things doesn't propel you forward. In fact, it may actually undermine your efforts to build expertise, making you overly reliant on gut instinct.	**… narrow in on specific areas and items in which you are not yet skilled.** As your skills evolve, focus on those things that require you to stretch.
… wait for formal opportunities, such as learning courses, to build new skills. Formal learning is a powerful tool. We believe that the focused energy of a well-designed learning experience can be just the boost that many people need to accelerate their practice. But we also know that you don't have to wait for such opportunities.	**… be opportunistic about practice opportunities.** A hallmark of intentional learners is that they capitalize on every chance to improve. Every phone call with a customer, every meeting, every interaction with your team or manager is an opportunity to practice. Keep your focus on developing skills and actively work on this all the time. Spend ten minutes before a call preparing your approach. Practice your presentation in a mirror. Ask a colleague to role-play a difficult conversation with you. Try to find the learning opportunity in everything you do.

Many of us believe that practice makes perfect, but that classic proverb isn't specific enough. Doing things over and over does little to build your skills. Instead, Ericsson suggests, "deliberate practice" creates expertise. Deliberate practice is "focused activity aimed at *just the right level of challenge* to extend expertise."[5] In other words, effective practice is aimed at the skill gaps just beyond your current set of skills. It is practice that Goldilocks would appreciate—not too hard, not too easy, and not too repetitive of what you can already do, but at just the right level of challenge, focused on precisely the skill you need. When it comes to being deliberate, we believe that this quality is not only a critical differentiator for intentional learners but also, in application, usually markedly different from what most of us do (exhibit).

Practice regular reflection

Metacognition, or reflecting on and directing your own thinking, plays a critical role in all cognitive tasks, including your ability to reflect on and learn from situations. Reflection is a diagnostic skill that helps you evaluate yourself and determine your learning needs, both in light of your own past performance and in comparison with recognized experts. Reflection helps you unpack your actions, to refine the component pieces, and then to put those pieces back together in a way that improves your performance.

5 Ruth Colvin Clark, Building Expertise: Cognitive Methods for Training and Performance, third edition, Hoboken, NJ: John Wiley & Sons, 2008, p. 202

Reflection that promotes learning happens in three primary moments—before, during, and after a task. Forecasting a cognitive task simply means looking ahead. In these moments, we are thinking ahead about how we might tackle a task, how we will approach a problem, or what we will say during a difficult conversation. We're reflecting on what's coming. This process of forecasting or planning primes us to learn. When we reflect during an event, we can correct our course and make adjustments. We notice what is happening even as we are "in the arena" and can learn and experiment in the moment. Finally, retrospective reflection lets us look at a past situation, consider how effective our actions were, and then project forward to how we would approach a similar event in the future.

Among reflection's many benefits two stand out. First is the correlation between reflection and self-efficacy. At the core of learning is your belief that you can learn, that you can improve, and that you can take the steps necessary to achieve desired levels of performance. Reflection begins a virtuous cycle of building confidence, which reinforces the feeling that we are capable, which primes us to become more capable. Confidence builds resolve to take on increasingly hard challenges, which strengthen existing skills and build new ones. Reflecting on those challenges in turn breeds additional confidence—and on and on and on.[6]

Equally important, reflection lowers a person's barrier to change. The best problem solvers try new strategies when old ones are no longer working. We work in a fast-paced world, and unfamiliarity, particularly in the face of time pressures, can be a major obstacle. Reflection builds cognitive familiarity with new processes. Because you have thought about something before and are always thinking about how to refine and improve, concerns about making changes become less powerful.

Our ability to reflect is threatened on many fronts. Being overscheduled, overworked, and overloaded affects our ability to pause and assess our circumstances and performance. But the noisier the world around us, the greater the need for dedicated reflection time. Intentional learners not only engage in reflection but also, in many cases, ritualize it. They create consistent and predictable patterns, both for when they will reflect and what they will think about. They establish strategies for capturing these thoughts and referring back to them often. By relying on ritual, learners reduce the number of decisions associated with reflection (for example, when, what, and how), so it becomes easier to return to the practice repeatedly.

The level of intention we bring to improving our performance readies us for challenges, prepares us to raise our skills when needed, and ultimately keeps us inspired and engaged. Intentional learning is an investment we make in ourselves, but it is equally an investment we make in our professions, our families, our communities, our organizations, and the world at large. In that way, it just might be the most fundamental skill for professionals to cultivate.

6 Giada Di Stefano, Francesca Gino, Gary Pisano and Bradley Staats, Learning by thinking: How reflection aids performance, Harvard Business School working paper, March 2014, hbswk.hbs.edu.

ABOUT THE AUTHOR(S)

Lisa Christensen is director of learning design in McKinsey's San Francisco office, **Jake Gittleson** is an expert in the Chicago office, and **Matt Smith** is a partner and chief learning officer in the Paris office.

This article was edited by Bill Javetski, an executive editor in the New Jersey office.

The digital-led recovery from COVID-19: Five questions for CEOs

A digital future lies ahead. By acting early and being bold and decisive, CEOs can accelerate their digital transformation and reach the next normal sooner.

By Matt Fitzpatrick, Isha Gill, Ari Libarikian, Kate Smaje, and Rodney Zemmel

There's a popular meme going around that neatly captures the tipping point of digital. It's a short questionnaire asking who is driving your digital transformation. The first two options are "CEO" and "chief digital officer." Below that, highlighted with a bright red circle, is "COVID-19."

The coronavirus pandemic is a humanitarian crisis that continues to take a tragic toll on people's lives. There's no denying it is also acting as a catalyst for change—economic, societal, personal, and corporate—on a scale not seen since wartime. The scale of the change and the speed at which it's happening is shining a bright light on the fact that companies are facing a once-in-a-generation shift. And for all the uncertainty about what the future will look like, it's clear already that it will be digital.

The challenging economic outlook and continued uncertainty are forcing CEOs to contemplate some difficult choices. Some are pulling in, making cuts, and focusing on riding out the storm. Others, however, are taking decisive action to make sure that when the crisis ends, they'll be stronger than they are today.

Research and experience show that those acting with a through-cycle mindset will be best positioned to accelerate out of the downturn. In the recessions of 2007–08, the top quintile of companies was ahead of their peers by about 20 percentage points as they moved into the recovery in terms of cumulative total returns to shareholders (TRS). Eight years later, their lead had grown to more than 150 percentage points.[1] One key lesson from that experience is the companies that move early and decisively in a crisis do best.

Accelerating your digital transformation

We believe the COVID-19 crisis is likely to significantly accelerate the shift to digital and fundamentally shake up the business landscape.

Even before COVID-19 hit, 92 percent of companies thought their business models would need to change given digitization.[2] The companies listed on the S&P 500 Index have an average age of 22 years, down from 61 years in 1958.[3]

Despite herculean efforts and significant accomplishments at many businesses, the pandemic has brought into sharp relief how vulnerable companies really are. One consumer-packaged-goods (CPG) company saw its online

---

1 Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles pop, downturns stop," McKinsey Quarterly, May 2019, McKinsey.com
2 Jacques Bughin, Tanguy Catlin, Martin Hirt, and Paul Willmott, "Why digital strategies fail," McKinsey Quarterly, January 2018, McKinsey.com.
3 Matt Banholzer, Markus Berger-de Leon, Ralf Dreischmeier, Ari Libarikian, and Erik Roth, "Building new businesses: How incumbents use their advantages to accelerate growth," December 2019, McKinsey.com.

Sidebar

Core principles

As CEOs consider how to move ahead, certain mindsets and capabilities matter more than others. They were important before COVID-19 hit but are particularly crucial today:

— ***Flexibility and speed.*** The speed at which the change hit us caught everyone off guard. It's become obvious that entrenched systems that have supported businesses for years—tech stacks, reporting lines, processes—have been no match for the dynamic fluidity of the current crisis. Building in redundancies, modularized systems for quick switch-outs, and devolved decision making (based on clear guidelines) will need to be the norm.

— ***Bold actions backed by a solid understanding of risk.*** The scale of the crisis needs to be matched by boldness in response. Incremental change and half measures are unlikely to provide businesses with the economic horsepower needed to ride out the storm and come out of the crisis in a strong position. Boldness of action should be tempered with a full appreciation of risk, from the impact of cyberattacks to the loss of crucial talent.

— ***Commitment to a holistic approach.*** The crisis has highlighted systemic and organizational weaknesses. These flaws highlight the need to ensure that digital initiatives take into account the complete range of dependencies and build in cross-functional mechanisms that integrate systems, people, and processes across the business.

orders go through the roof, only to have its operations descend into chaos in an effort to process and fulfill the surge. Tech-enabled businesses, on the other hand, were able to move at speed, such as India food-tech business Zomato, which used its platform to work with grocery start-ups to meet surging online-order demand.[4]

For many companies, the only option is to accelerate their digital transformation. That means moving from active experimentation to active scale-up supported by ongoing testing and continuous improvement. These moves should happen across two dimensions: at the core of the company and through the development of new businesses. Top-performing digital companies take this twin approach.[5]

Despite the immense challenges CEOs are managing today, now is the time to act. In fact, we've seen that the reduction in time spent traveling has given CEOs and their top teams more time to focus on new initiatives. One leader at a large bank, for instance, said recently that it was finally getting around to launching an important customer-relationship-management (CRM) program that it had no time for before. Given how fast change is happening, waiting until you see signs of recovery will be too late.

There is much we don't know. But drawing on our experience and lessons learned from companies that are moving ahead—particularly in China—we believe that CEOs should ask the following questions to help prepare their businesses for the recovery when it finally comes.

1. Do you have a clear view of where the value is going to be and a road map that will get you there?

Despite noteworthy successes in adjusting to COVID-19, many leaders have been frustrated by how slowly necessary changes have moved, from serving a surge of customers migrating to digital channels to scaling back-end operations. We

4 Pramugdha Mamgain, "India's Zomato sees business opportunity in grocery amid COVID-19 crisis," Deal Street Asia, March 23, 2020, dealstreetasia.com.
5 "How digital reinventors are pulling away from the pack," October 2017, McKinsey.com.

believe that one of the biggest reasons for these difficulties is that, while companies have had many digital pilots and initiatives in place, they didn't add up to a coherent and integrated digital engine to drive the business forward.

Accelerating their digital transformation requires CEOs to take a step back and reassess their road maps (the coordinated and detailed plans for what needs to be done, by whom and when, from the leadership level down to the front line) as well as the assumptions about value and feasibility underlying them. Those assumptions need to be based on emerging new customer behaviors, supplier dynamics, and regulation. Our consumer-sentiment analysis, for example, has revealed whole new consumer groups trying out digital products and services for the first time. As of this writing, in the United States, some 35 percent of Gen Zers, for example, have used video chat for the first time (versus just 6 percent for boomers), while 54 percent of households with incomes greater than $100,000 have tried online streaming for the first time (versus 35 percent of those households earning less than $50,000).[6]

On the B2B side, our recent customer-behavior research shows that digital interaction with B2B customers is now two times more important than traditional channels—more than a 30 percent jump since before the COVID-19 crisis hit.[7] In telemedicine, regulation, licensing, and reimbursement questions that had traditionally hampered its adoption have been swept away to help fight the coronavirus, laying open a scenario of reduced—or, at least, different—regulation in the next normal. These developments have to be closely monitored, of course. Some behaviors are likely to stick—early research suggests that more than 55 percent of Chinese consumers are likely to permanently buy more groceries online, for example[8]—while others won't.

Having a road map doesn't mean, of course, that it will be executed. Among the most important tasks in operationalizing the road map is getting alignment with the leadership team—the chief digital officer (CDO) as well as key line and functional leaders—and putting in place the resources needed to deliver on it. Alignment is challenging in normal times but is now that much more difficult with your leadership team all working from home. Through video chat or phone, the CEO needs to be explicit in calling out members of the top team so that everyone understands not only what the road map is but also what their responsibilities are and how they will be resourced.

CEOs should then work with their top team to identify critical roles (roughly 30 to 40 for an enterprise). For these roles, it's important to spell out the job and eliminate tasks that are not essential, and then provide solid teams, enough budget, and clear (usually enhanced) decision rights. Selection is critical—you need absolutely

---

6 "Survey: US consumer sentiment during the coronavirus crisis," April 2020, McKinsey.com.

7 McKinsey B2B Decision Maker Pulse Survey

8 Julien Boudet, Jonathan Gordon, Brian Gregg, Jesko Perrey, and Kelsey Robinson, "How marketing leaders can both manage the coronavirus crisis and plan for the future," April 2020, McKinsey.com.

Sidebar

Executive checklist

- [ ] Do you have a business-led technology road map that reflects new assumptions about your industry and the pace of digital adoption by your customers, suppliers, employees, and regulators?
- [ ] Does your resourcing—including where your very best talent is deployed—match your digital aspirations?
- [ ] Does your road map reflect the "last-mile behavior changes" that will be necessary to make your transformation program stick?

the best talent in these roles.

2. What role should business building have in helping you accelerate your entrance into new markets or access new customers?

Many businesses can only match the pace of both the crisis and the change in customer behavior by building something outside of the core company. This allows them to build something in a modern way—fully agile with microservice architecture and entrepreneurial talent.

The issue, however, is that fewer than 10 percent of business builds succeed. When enterprises take a more structured approach—including a clear strategy, entrepreneurial talent, and the proper balance between corporate support and operational freedom—the success rate jumps to 67 percent. Corporate support is particularly important now. Besides access to cash and relative stability, large enterprises provide a "safe harbor" during the crisis, allowing the entrepreneurial spirit to thrive free from the broader economic concerns. Our recent B2B survey indicates that large B2B companies remain more stable, with approximately 50 percent planning to increase or maintain their spending in the short and long term.[9]

We have already seen and, frankly, been deeply inspired by, what is possible during this current coronavirus crisis. In China, engineers built two hospitals (2,600 beds in total) from scratch in just over a week. In select catchment areas, the National Health Service (NHS) in the United Kingdom was able to execute long-term telehealth plans in 15 days or fewer. What this demonstrates to us—as in the proverbial "necessity being the mother of invention"—is that people can move with astonishing speed to build something new. One European retailer was able to launch a new e-commerce business in just 13 weeks. Overturning assumptions about the way organizations and consumers operate, we see a number of early archetypes for postcrisis business builders. Remote-service providers, for example, can take advantage of the big shift to online access by delivering services and providing support. Data visionaries are finding ways through analytics and automation to use new types and sources of data to generate value.

CEOs will have a key role in making sure that the enterprise develops a business-building capability rather than simply launching a new business. That's because it will be necessary to launch multiple businesses over time to sustain new sources of growth and as a hedge against future uncertainties.

9 McKinsey B2B Decision Maker Pulse Survey.

Sidebar

Executive checklist

- ☐ How are you balancing the advantages the large enterprise can provide with the freedom that the new business needs to thrive?
- ☐ How will the management team measure success—including incorporating the high volumes of customer feedback—of the new business at the three-, six-, and 12-month mark from launch?
- ☐ What external partnerships are you exploring to build and scale the new business?

3. How can you lock in the benefits of a more agile operating model to increase the metabolic rate of your business?

Once an almost exclusive domain of IT, agile has now permeated almost every part of the business. Companies are being forced to move and take action at unprecedented speed—and almost exclusively remotely. A large bank, for example was faced with a 20-fold rise in origination volumes as part of a loan program to support small businesses. It "stood up" a cross-functional executive team to tackle the issue, from customer communication to underwriting to product development and training for 500-plus employees. The bank did this via twice-daily agile huddles, rapid backlog management, and issue resolution, all in a fully virtual setting.

The nature of the crisis has required teams to act quickly amidst uncertainty, make decisions with limited oversight, and react to fast-changing situations. There are typically 50 people that make 80 percent of the decisions, but, as the crisis has shown, moving to agile allows you to take advantage of thousands of brains.

Some new ways of working are an "all hands on deck" response to the pandemic that are not likely to be sustainable. But as CEOs look to accelerate the metabolic rate of their business in preparation for the recovery, they will need to be deliberate in protecting what has worked well and guard against the legacy ways of working creeping back when the crisis abates. Centralization can be good for managing a crisis, but it should not be mistaken for a model for growth, and CEOs will need to keep any overly centralized action from being the status quo. Protecting the benefits of new ways of working also doesn't mean just cutting costs on travel. It's about harnessing the vitality and effectiveness of extended agile teams working on objectives, not simply tasks.

For one thing, we suspect that executives are realizing something that we ourselves are also seeing: videoconferencing can be much more productive, especially for quick check-ins. While in-person meetings will be needed—previous research has shown that productivity among teams drops as the number of locations they work from increases—some hybrid models will likely emerge to take advantage of the benefits of remote and in-person connection. Video meetings have exposed what agile gurus have been saying for years: that the ideal effective team size is five to nine people. A 20-person Zoom meeting, where you can see only nine people on an iPad screen, has shown itself to often be an exercise in frustration. Many CEOs should be able to see how much a skeleton crew can get done when given the right tools, support, and mission.

Other benefits are emerging as well, ones that CEOs need to make sure stick. For one, it will be crucial to preserve the empowered and iterative ways of working. Another is that clarity of purpose and a tight focus on just a few things can do wonders for animating an organization and driving results.

Sidebar

Executive checklist

- [ ] Are your business leaders, technologists, and control functions working together to continuously deliver incremental improvements (every two weeks) grounded in customer value?
- [ ] What does "test and learn" look like week to week for each of your strategic initiatives, so that you can capture learning from failure and build on it?
- [ ] Have you identified which elements of your current way of working you want to preserve and created a plan for doing so?

The necessity to figure out things on the fly has underscored another crucial capability: being able to learn and adapt. Even before the crisis, we found that the top 10 percent of companies in terms of revenue growth are more than 50 percent more effective than peers in testing, measuring, and executing based on what they've learned. Building up this corporate muscle isn't about improving training (although that is important, more on that later); it's about embedding a culture of experimentation, learning, and iterating.

The words of Beth Galetti, the senior vice president of HR at Amazon, are instructive: "We are frequently doing things that have never been done before. For this reason, there is often no playbook to teach nor experts to follow, so we empower people to try new things and learn along the way."[10]

The CEO can start building support for agile now by calling attention to the ways in which work has improved as well as by identifying processes and incentives that can hardwire the benefits.

4. How should you rethink your talent strategy so that you have the people you need when the recovery starts?

As the full economic impact of the crisis hits, pressure will continue to build to cut costs. CEOs will be faced with difficult people decisions. However, given the importance of talent in accelerating progress, it's critical to adopt a through-cycle mindset on people—not just in keeping the right talent but also in building the skills of the people you already have. For CEOs, this means developing a talent road map that's as detailed as a technology one.

CEOs at several large businesses are acting on this through-cycle mentality by articulating what critical skill pools are needed for recovery. In the technology realm, for example, the focus should be on building your base of top engineers, who are ten times more productive than less accomplished developers. These are the people who will be rapidly deployed and redeployed to do the most important work. This exercise includes determining how many of them will be needed so that there is sufficient resiliency, developing an approach to building their skills, and identifying both the people who have emerged as stars during the crisis and those whose skills can be upgraded through training.

Training itself is likely to see profound change. Before COVID-19 hit, most companies struggled to get online learning to work. The new world of remote working, however, is acclimatizing people to the tools and processes that are core to distance education. This represents an opportunity for training to scale the programs built for how people actually learn best: shorter,

[10] "How Amazon is built to try and learn," February 2020, McKinsey.com.

Sidebar

Executive checklist

- [ ] Can you articulate why a recent engineering graduate would join you rather than a digital competitor?
- [ ] Do you have a skill road map that is as detailed as your tech road map?
- [ ] How are you tracking value at the individual level, and linking the learning to talent and performance management?

“bite size” learning modules tailored to the individual and delivered when they’re needed as part of a thoughtful learning journey. CEOs should prioritize remote boot camps, self-serve modules, simulations, and collaborative learning environments supplemented by a rigorous certification program and in-field trials to accelerate how teams learn.

5. What investments are the most necessary to create the technology environment that will allow your company to thrive in the next normal?

The disruptions of the coronavirus have underscored the crucial role of technology, from supporting remote working to scaling digital channels for surging customers. Despite the outstanding accomplishments in managing the technology response to the crisis, the many setbacks have highlighted systemic weaknesses. That shouldn’t be a huge surprise, since of the organizations that have pursued digitization, 79 percent are still in the early stages of their technology transformation.[11] More important, they’ve highlighted a point that’s been made before but can no longer be ignored: technology is a core driver of value, not merely a support function.

This insight is crucial because too often the overriding factor when it comes to technology has been cost. CEOs have a leading role to play now in expanding that definition to include value creation as well as flexibility, cybersecurity, and resiliency. To make that happen, CEOs will need to work much more directly with their chief information officers (CIOs) or chief technology officers (CTOs) to make tech investments in legacy-system modernization and in microservice-architecture development, or in building a new tech stack altogether (for instance, for developing a new business). To enable this kind of effective decision making, some CEOs have added CIOs to the leadership team and have asked them to report directly. Having CIOs closely involved with shaping the business strategy and agenda is shown to enable faster progress in achieving a company’s digital goals.[12]

That focus on value extends to data and advanced analytics as well. Never before has the need for accurate and timely data been greater. The government of South Korea proved that point when it worked with private companies to launch a COVID-19 data platform that reduced contact-tracing time from 24 hours in early February to less than ten minutes on March 26. To do so, they developed a digital surveillance system that consolidates information from 27 public and private organizations.[13] This example highlights the importance of tapping new data sources

11 “Can IT rise to the digital challenge?,” October 2018, McKinsey.com.
12 Ibid.
13 Park Han-na, “Seoul to launch 10-minute contact-tracing program, The Korea Herald, March 26, 2020, koreaherald.com.

Sidebar

Executive checklist

- [ ] Is your digital transformation powered by modern software-development methods and delivery capabilities like a tech company?
- [ ] Do you have robust and federated data governance to enable broad and continuous use of data by the front line and to enrich the data over time?
- [ ] Are you investing at least as much to build conviction and the ability to act as you are in technology?

going forward. Additional initiatives could include developing 360-degree views of the customer, adopting consistent tool sets and processes, or modernizing data architecture and moving to the cloud. To get the full value from data in the future, it will be important to retrain algorithms based on new realities. At the same time, CEOs will need to work with their risk leaders to ensure that the scramble to harness data follows strict privacy rules and cyber best practice.

Increased digitalization has also highlighted the increasing importance of ecosystems. Responding to customer needs during the crisis, for example, we've seen how some banks integrated medical-care advice, doctor-appointment services, and automotive services for their customers. As protocols and standards increasingly normalize these connections, the CEO will need to help guide which ecosystems can drive the greatest value for the business and how to navigate the implications for customer relationships, data sharing, and intellectual property—key sources of advantage in the digital age.

We have not seen the end of the crisis. Nor do we know exactly when the recovery will come. But it will come, and the CEOs who can best prepare their businesses effectively for a more digital future will give their companies the best chance for a brighter future.

ABOUT THE AUTHOR(S)

Matt Fitzpatrick is a partner in McKinsey's New York office, where **Ari Libarikian** and **Rodney Zemmel** are senior partners; **Isha Gill** is an associate partner in the Chicago office; and **Kate Smaje** is a senior partner in the London office.

The authors wish to thank Santiago Comella-Dorda, Lang Davison, Eric Lamarre, Bill Schaninger, and Kevin Wei Wang for their contributions to this article.