

McKinsey Transformation

The wisdom of transformations: How successful CEOs think about change

What works and what doesn't, from those who know.

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Embarking on a transformation is one of the most critical decisions a CEO will ever make. It requires big commitments both internally and externally, and puts the spotlight on her or his ability to lead and deliver. The context and need for transformation are always different, but the level of commitment and focus from the CEO is invariably the same. A successful transformation puts her or his career on a new pathway—as does an unsuccessful effort.

Transformation is one of those words that gets routinely misused. Many CEOs will say they have been involved in multiple transformations. But by our definition— an intense, organization-wide program to enhance performance and to boost organizational health¹—very few have delivered one sustainable, at-scale business transformation, let alone several.

Those who have managed this kind of metamorphosis offer a rare perspective. We interviewed 12 CEOs from around the world about their transformations and what made them successful. Their companies are active in a broad range of industries (from public sector to banking, resources, telco, and healthcare) and an even more diverse range of contexts (from severe financial distress to modernizing the business through agile ways of working).

In this article, we'll discuss the common themes that emerged from the interviews that were also supported by our data. These insights can be grouped in three areas: committing to transform, leading the transformation from the front, and sustaining a new way of working.

Committing to transform

We heard three recommendations from CEOs for others who are thinking about taking the plunge:

- **Affirm your conviction that the business needs to change.** All the CEOs had a clear picture of the threat or opportunity facing their business. Some were obvious to management

(higher costs versus peers, high debt levels at a time when growth was slowing, declines in price for their products), while some were perhaps a little less visible but still keenly felt (capital tied up in popular, unproductive assets; the threat of automation; a government policy change; an aspiration to grow into a regional or national champion). In a couple of cases, an adversarial culture prevented issues from even arising, yet the CEO knew something was wrong. In every case, the CEO could clearly articulate the one or two reasons why a transformation was required.

- **Frame transformation as a higher level of performance—not a project.** Before starting a transformation, CEOs we spoke with recognized that the current mode of working would not lead to achieving the intended transformation outcomes. In other words, the methods used to achieve historical success were insufficient to reach a higher level of performance. One CEO framed it as “this is not business as usual—if you think you can go through and be consistent with how you managed in the past, then you shouldn't go into it.” Minor change programs are often thought of as projects that have an obvious start and end when the mission is accomplished. But that won't work in a true transformation. Instead, CEOs see transformations as the way to, yes, deliver value, but also to accelerate the metabolic rate of decision making and execution within the company, as the start of a never-ending journey to continued excellence.
- **Set an uncomfortable but inspirational ambition for your leadership team.** Another theme was the need to aim extremely (even painfully) high. One CEO felt that the company's management team was initially cynical about the scale of the ambition. Another said, “we were really concerned if this was even deliverable.” These limiting beliefs could have come from the existing culture; as one said, “our internal incentives didn't encourage us to be as bold as we could be ... you can't just keep slicing but need to make fundamental change.” The

¹ Michael Bucy, Stephen Hall, and Doug Yakola, “Transformation with a capital T,” *McKinsey Quarterly*, November 2016, McKinsey.com.

CEOs we interviewed believe it is critical to set an extremely high aspiration—not only to show that this transformation is different from previous efforts but also to orient the company toward a new full potential. This ambition should also incorporate all levers of value creation: margin expansion through revenue, working capital, capital expenditure, and operating cost reduction. The first of these may be the least expected source of transformation value: our research indicates that about 40 percent of the average program’s value delivered comes from growth and top-line topics.

Leading the transformation from the front

What do successful leaders do in a transformation? We heard four suggestions:

- **Show true ownership by mandating involvement and getting into the detail.** The CEOs we spoke with spent real time within their transformations. “If the senior leader isn’t managing, it’s being done to the business rather than by the business.” Simply put, CEOs did not delegate transformation accountability, but spent “real time on it every week,” or “mandated involvement [in the transformation] when required.” They stressed the need to personally role model the future they aspired to see. One CEO wanted to role model so well that “the detractors have no place to hide.” Another suggested that “you have to be serious and go in with the mind-set that we’re going to do this no matter what.” The role modeling requires executives to go deep into the minutiae of the business. Our research shows that transformations are five times more likely to succeed if leaders model the change, and two-and-a-half times more likely if leaders spend more than half their time on it.
- **Involve everyone in the transformation, not just senior leaders.** Ambitious targets and timelines in CEO-led transformations require a large team to execute. One CEO was impressed when her “staff came back with a thousand ideas on how to improve the organization . . . we were amazed at how much intellectual value there was in the organization that we had left untapped.” Another delivered on the company’s initial aspiration with “25 percent of employees directly involved. Imagine what we would get with 100 percent of the workforce.”
- **Build execution discipline from the start by focusing on the immediate activity.** Unsuccessful transformations often struggle because of a perception that “it can’t be done,” “we can’t afford it,” or other limiting mind-sets. Successful launches happen when teams avoid dissonance coming from long-term challenges and focus on the immediate next step—creating a catalog of ideas for initiatives. Across the next nine weeks, these initiatives can be shaped into a realistic plan with defined financial outcomes and an executable set of milestones. While understanding the risks and challenges that may arise is important, they do not all have to be solved in the initial planning phase. Some CEOs spoke of a two-speed transformation, in which they implemented some immediate interventions (first speed) to “create the oxygen” needed for the full transformation (second speed). Not only does this make the program self-funding, they said, it also quickly demonstrates the organization’s bias to action and momentum for change.
- **Develop one voice as a leadership team on the transformation.** It is essential that top leaders commit to the transformation. Their resolution encourages the incremental effort that thousands of others must make for the transformation to succeed. “If you show any sign of weakness or that you’re not committed, your people will pick it up straight away. They will not go the extra mile because they’re not sure about whether you’re committed as the CEO.” Leaders say that they had to work individually with each of their team members to bring them along the journey. They acknowledged the prejudices that

² See “How to Beat the Transformation Odds,” *McKinsey Quarterly*, April 2015, mckinsey.com, based on a survey of about 2,000 global executives.

each team member had and spelled out the need to “reset our expectations to ensure we lead by example.” To create this environment, one CEO had to “acknowledge my own weaknesses and build strong relationships individually.” Many acknowledged that not every member of their teams would make the journey.

Sustaining a new way of working

What can leaders do to build momentum for the long term? CEOs offered a few suggestions:

- **Invest in people and culture from the start.**

A common CEO regret is not addressing the needed shifts in behavior and culture early in the transformation. One CEO reflected “I didn’t realize how deep a change we had to make in culture before we can deliver the quality of change we were looking for.” Another identified the point when individuals’ ownership of their role in the transformation really cemented: “You see this wave start to crest where people are saying, ‘I have the right to change my part of the business.’” While a transformation’s performance infrastructure may drive results, CEOs were uniform in their view that cultural change underpinned the sustainability of the impact.

- **Make engagement personal, so people in the company know why it is transforming.**

CEOs recognized that transformations build momentum and ultimately sustain their impact when lower-level employees feel empowered. One CEO accomplished this by ensuring everyone understood the commercial outcomes of the decisions they were making. Another focused on the personal impact: “We celebrated the little things and reminded people of the potential importance of the transformation to each of them personally ... I would go to meetings and say, ‘in my 30 years

in this business this is the most significant change I have seen, and each of you have built a new capability through this that you can take throughout the rest of your career.” CEOs identified a number of prerequisites to making it personal. One mentioned how “the story needs to be relevant on how it’s important to them.” Another said that “people need to see it is congruent, and explain the ‘why,’ especially if there is a lot of pain.”

- **Flex your new execution discipline to help weather future challenges.**

While better business outcomes are the overt goals of a transformation, execution discipline is an invaluable by-product—especially because as the transformation progresses, the remaining value gets smaller and more difficult to extract. One CEO reflected that “market challenges usually get harder and harder”; another found that “initiatives changed to become longer and more strategic.” This continuous-improvement engine changes the game for companies. One CEO felt that “there is no aspirational state, as you always reset to a new aspiration.” Our data suggest that three of four companies embrace the transformation methodology, continuing to use it years later to improve the business.

The most common suggestion from our CEO panel was to go “all-in”: not only in setting the scope of a transformation but also in the time and willingness to be at the center of the effort. A close second was the idea that time is of the essence. One CEO reflected that “most people are not like wine; they do not necessarily get better with age.” The same goes for a company’s problems. There will never be a better day than today to start a company on its new path to a more successful future. We hope that these CEO insights may improve the vintage of the fruits of your transformation.

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