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Disruption, friction, and change: The hallmarks of a true transformation

McKinsey Quarterly October 2017

A company transformation is a holistic, top-priority endeavor that requires aggressive focus from the management team to reach the full potential of a business.

Transformations are difficult undertakings and come with a high likelihood of failure. But with a focused plan and dedicated leaders, a company's executives can turn around the business and achieve meaningful success. In this episode of the *McKinsey Podcast*, McKinsey partner Michael Bucy and senior partners Stephen Hall and Doug Yakola, leaders in the Recovery & Transformation Services Practice, speak with McKinsey Publishing's Tim Dickson about what it takes to truly transform a business and bring about lasting change.

Podcast transcript

Tim Dickson: Hello and welcome to this edition of the *McKinsey Podcast*. I'm Tim Dickson, an editor with the *McKinsey Quarterly*. Today we're going to be talking about transformations: big, organization-wide change programs with the potential to really change the trajectory of a company.

These are historically very difficult and remain difficult. So how can executives increase their chances of success? Joining me today to discuss this and other issues are Michael Bucy, a partner in McKinsey's Charlotte office; Stephen Hall, a partner in the London office; and Doug Yakola, a partner in our Boston office. All three are members of McKinsey's Recovery & Transformation Services Practice. Mike, Stephen, and Doug, thanks so much for joining. Now, Doug, you have said in a recent article that "transformation" is, and I quote, "The most overused term in business." When you talk about transformations, what's different? What's new?

Doug Yakola: Transformations, the way that we think about them, are organization-wide and completely holistic. This is something that you don't do with just the top five executives in the company in a top-down exercise. It's not something where you transform a small piece of the business. But a transformation happens when you get the entire organization involved in something that is bigger than themselves.

The way that we think about it is, it needs to be hugely aspirational. A transformation takes place where the people don't understand the breadth and depth of what they can do until they get involved in it. It's truly about the full potential of the company and not just an incremental bump here and there.

Tim Dickson: Anything you'd add to that, Stephen?

Stephen Hall: One of my clients likes to talk about the need to go against the grain. A true transformation is disruptive. It doesn't just work with the existing governance, the existing processes, the existing budgeting cycle, the existing ways of doing things. It is going to disrupt. And it's going to create challenge and tension and friction in the organization. We view those characteristics as being necessary co-travelers to delivering a true transformation of the company.

Doug Yakola: Because it is so disruptive, it's also a top priority of the organization. This is not something that can be third or fourth down in the CEO's list of things he or she must do. The way we talk about it is, it's the number one or number two priority past safety that you need to be thinking about.

Tim Dickson: What is the context you're finding for these transformations? Is it primarily technology and technological disruption that are causing companies to undergo these big change projects?

Doug Yakola: No, not at all. This runs the gamut. You can have a company that has been performing poorly for many years and needs to step back, take stock, and undergo a fundamental transformation of their business model. There's technological disruption, as you point out. There is disruption as it relates to the revenue growth plan, and we work with many companies that have been in high growth for the last, say, five, six, seven years, and, suddenly, that growth is starting to tail off.

We are working a lot with B2C companies now that have a technological disadvantage in that they've been brick and mortar or they've been working a lot in print, and now they need to go to much more digital media. That has also been a big area of transformation.

These are companies that look at where they are now, and they look in the future, and they know that they need to do more than just an incremental improvement year over year in order to stay ahead of their competition.

Tim Dickson: Historically, a lot of these big transformation projects have failed. Stephen, in your experience, why is that? What sort of patterns do we see?

Stephen Hall: First of all, I think executives are right to be skeptical about this term "transformation" and the opportunities that it can offer. The research that we've done and the research that academics have done and many of our competitors do show a consistently, very high failure rate of these programs as reported by the companies themselves.

Around 70 percent or so are routinely cited as being the likely rate of failure of these kinds of programs. It's not surprising, when you think about it, that it's the case. A company [undergoing a transformation] is going to be in a situation where it is trying to change many things, in parallel, to a significant degree.

What we find, of course, is that the resistance—both the resistance in the broader workforce in a company but also, frankly, in the extended leadership team itself—is often very high to making those kinds of changes. What we try to do is to take a company through a process by which it builds commitment to an agenda, to a set of aspirations, and, ultimately, to a set of plans that will allow it to move beyond the status quo.

It requires a set of steps, a disciplined approach, which many companies are simply not set up to do for themselves. They don't necessarily have the patent recognition in terms of what needs to be achieved.

Tim Dickson: You all have been working with a lot of companies that have succeeded in their transformation programs. Michael, what would you say are the essential ingredients for those that get it right?

Michael Bucy: It's all about avoiding leakage. So at the aspiration stage, folks don't go for their full potential. They go for seven out of ten of it. And then in the planning and execution, they let some things slide. They don't see some things all the way through. And they do seven out of ten of it.

Then, finally, they don't build in the changes that are necessary for the initiative to be sustained. They get it seven out of ten right. Well, if you multiply that together, those sevens out of tens, you quickly get to about a 30 percent success rate. That's what we've seen, again and again. You have to, at each step of the process, go for the 100 percent and be able to realize the full potential of the business in order for the transformation to be successful.

Tim Dickson: Let's talk a little bit more about that target setting. This is one of the initial steps that's obviously important to get right—to go for what the potential really is, rather than what people think it is. How is that possible in practice that people could so underestimate the potential? Mike?

Michael Bucy: All executives are familiar with the typical budget cycle of a company. Managers throw out very lofty targets and then have discussions with the other executives about what they're willing to commit to. You say it's going to be 100. The executive comes back and says, "No, I can give 20." You settle on a number of 30 to 40 or 50.

Our process starts with setting the bar at the full potential of the business. What can managers do to achieve that 100 percent? And being uncompromising in saying, "We're going to go after that 100 because here's the fact base that supports it." The rest of the executives have to suspend disbelief for a bit because they've operated in an environment where they've never been able to achieve 100. They've been able to achieve 20, or 30, or 50. It takes that suspension of disbelief to start going on the process, to start developing the initiatives, to start talking to their teams, and to start setting a new target to allow people the space to think differently and to realize their full potential.

Doug Yakola: There is a real value to having an independent perspective. Many times the management teams—highly, highly qualified management teams—have been living with a plan and living in the business for a long time, and they developed paradigms. Those paradigms sometimes are unknown to them. Bringing in someone who has a fresh perspective and is very independent is powerful in making these happen well.

Tim Dickson: Let's just talk a little bit about the chief transformation officer, which is another of the important ingredients of success in these programs. Stephen, what's your perspective on that?

Stephen Hall: Our view is that the chief transformation officer role, or CTO, is absolutely critical to driving a transformation program. Very often, companies that have been through change processes will have appointed someone to be the head of the PMO—the program management office—or something of that nature. It's generally a midlevel executive who is reporting upward to an executive team.

That's often what they expect when we show up. We push for something that feels very different to that. We insist on there being a chief transformation officer, someone who will report directly to the chief executive, who will sit on the executive management team as a peer to all of the other executives who might be leading large businesses or leading functions, and someone who's not going to have profit-and-loss responsibility for the outcome but who's going to have responsibility for the quality, the rigor, and the pace of the transformation program. This comes down to quite subtle things. It's less about the mechanics. It's more about the degree of challenge that goes on in those early conversations.

Very often, we'll have a CTO say to the chief executive, "I'm going to pick some battles here. I'm going to pick a few fights with members of your team, and you have to back me on each of those battles. If you don't back me and you don't give me the independent authority to drive this process and to challenge your team, then we're not likely to be successful here."

That constructive tension that gets set up, in the best of these programs, is one of the things that allows an organization to go further and faster than it would do under a "business as usual" governance approach.

Tim Dickson: Some people listening to that will say that the constructive tension could become unconstructive conflict. Do you have any thoughts about how to avoid that, Doug?

Doug Yakola: This is where you need the experience. We often say that the skill sets you need to run a company are very different than the skill sets you need to transform a company. Finding someone either internally at the client, then with heavy coaching, or using an experienced chief transformation officer is really, really important.

You do have to pick your battles. You can't fight every fight. The trick here is to get people to understand that you're acting almost like a personal trainer. You are pushing them so that they can get better. It's best if you can develop those relationships early on and make connections, personal connections, with people, so they can see you as a CTO, as a person just trying to do the best for the organization.

Michael Bucy: And to Stephen's point, it also takes the one-on-one conversations between the CTO and the CEO and with the other leaders to work through, to orchestrate these conversations, to get on the same page, to form the personal relationships that are going to be the foundation for driving the trains forward. Don't underestimate how powerful those personal relationships need to be in order to have the tough conversations in the more public settings.

Tim Dickson: We've talked about the importance of the senior people in these programs. But underlying a transformation is the transformation office. Mike, can you tell us a bit more about what that is and what it looks like?

Michael Bucy: First and foremost, it cannot be a PMO. It can't be how you traditionally think of a program management office that is tracking initiatives, that's counting the dollars, that all it is doing is keeping score. The transformation office has to add more value, and it adds more value by recentering the conversation.

The focus needs to be on the initiative owners—the hundreds, the thousands of folks around the organization that are trying to drive the change across the business. The transformation office has to focus on them and figure out what it can do to help those initiative owners get things done where they have failed in the past. Driving action is the heartbeat of the transformation office, and then creating a cadence throughout the organization, a relentless cadence, to drive action again and again and again in order to move the organization forward.

Stephen Hall: One of the best transformation offices that I ever saw was in a large, basic-materials company. It set up the transformation office—it was a big, circular room—right in the heart of the organization. It was a place that people would naturally come past and come through.

There were no chairs in the room. All it had was stand-up space. And it had whiteboards all the way around the walls. On every whiteboard was a separate major work stream and the underpinning initiatives and what the progress on each of those were. The company had the work-stream leaders, the sponsors, and the underpinning initiative owners come in every week and give an account of the progress that they were making, talk about where they were falling behind, and drive it through to a very, very pragmatic set of must-dos, so-whats, in terms of removing barriers, moving things faster, finding ways to fill gaps that have occurred, and so forth.

At the top of this room was a gradation all the way around the room, which described the overall target that the [transformation owners] were headed for. They called it "the snake." Every week, the snake progressed another half meter or meter around the room. In the end, that snake went around the room, I think, two and a half times. That's how much more they achieved versus what they initially set themselves as an aspiration.

Tim Dickson: The transformation office is about getting that cadence right, the processes right, and marshaling the energies of the employees of the company. But a lot of it, I know from your work, is about getting the mind-sets of employees pointing in the right direction and encouraging that mind-set. Mike, would you talk about how you go about changing mind-sets when they're not going in the right direction?

Michael Bucy: Equally as important as the specific initiatives, the "what," as we talk about it, is the "how"—how is the transformation going to be executed? And even more broadly, how are we going to change how the organization is run? In every situation I've been a part of, there have been deeply held roadblocks or mind-sets that are holding the organization back from its full potential.

Sometimes it's folks within the organization who are just waiting to be told. Sometimes the organization is so siloed that it is prioritizing and optimizing for a specific function or business unit, rather than the tribe as a whole.

It's finding what those are. It's what the individual mind-sets are in a given company situation and the culture that's grown up over time, in unlocking that and calling that out and then figuring out how you're going to change that that really allows the organization to go from a performance level that's good or OK to great and, most importantly, sustainable.

Doug Yakola: Adding to what Mike has said, we have a very strong belief that you just don't think differently and then everything's OK. You have to actually put quality effort behind changing mind-sets, which then change behaviors in the organization going forward.

The way I like to talk about it is, what you need to do in a transformation is to get people to act differently. When people begin to act differently, they will begin to think differently. The transformation office and the way that Stephen was describing the big round room and getting people to go around, those are examples of getting people to act differently and, therefore, think differently.

One of the best examples I saw was a situation where we walked into a company that thought it needed about $100 million of overall improvement, this was both on revenue and cost. After doing an independent look at it, we came up with a number that was six times that that it could go after. Watching the executives get their heads around the fact that there was six times more value than they originally thought, and then the courage that it took for them to say, "We're going to go after it, and we're going to go after all of that," was very inspiring.

We put a whole program toward doing that, toward going after the peak that they never thought they could attain. This company built confidence. The people in the company built confidence as they started to climb that mountain. When they got done with that $600 million, they went back to the well again, and they found another $400 million.

Tim Dickson: One of the most difficult things, and I think your experience backs this up, is to sustain the impact of that transformation beyond that first six to nine months and to avoid a situation where people just get tired and go back to their bad old ways. I'd like to ask you all to reflect on that.

Stephen Hall: I think that, beyond the mind-set changes we've talked about, it is retooling capabilities that is critical to being able to sustain a transformation after the formal highly focused program has run its course.

People need to learn to work in different ways. They need to learn different skills. They need to learn how to connect differently with their customers. They need to learn how to work differently with their supply chains. These are all areas where I think that there's much more for us to do and, indeed, for the companies themselves to do, to ensure they've got a workforce that's going to take them forward, not just back to the old equilibrium, as you described it before, Tim.

Tim Dickson: Doug, is it capabilities as you see it? Are there other things, in your experience, that drive sustainability when it goes well?

Doug Yakola: It's absolutely about capability. But I also think that there's something to be said for the discipline of a cadence. One of the things that we enforce early on in a transformation is that there is complete transparency and accountability for the type of initiatives that people are working on.

It will be expected that they're going to come in every week and they're going to talk about how they're doing against that. That begins to get people to form a habit. Somewhere out there is a truism that is, you do anything for three weeks and it becomes a habit. In this case, we're doing this for a year. You engrain this habit into people that is a sense of accountability and a sense of discipline with how they go about their daily jobs, and I think that makes it sustainable as well.

Michael Bucy: Agreed on both Stephen and Doug's points. I would add two things. One is that the transformation can't be separate from the financials and the financial processes. It has to be part and parcel. Therefore, the initiatives that are delivered are baked into the budget, into the forecast.

Then the annual cycle that the business goes on, where the next budget is set, has to have the same transformational thinking in it so that the organization has learned, as Doug was saying, a habit of going after value. Then in the next budget cycle, the executives set another ambitious goal and go after that and go put that value to the bottom line.

Then the second thought is changing how the company runs, how the company operates. If the company feels the same on day zero and on day 365 or in two years, you probably haven't changed the company so that the transformation will be sustainable. You have to change how the company identifies, makes, and executes decisions at its core.

Tim Dickson: So it's permanent revolution or a permanent new way of working. How would you best characterize it, Mike?

Michael Bucy: This is the new way of business for our clients and for the business community at large. Transformation is here to stay because, at the end of the day, transformation is about reaching your full potential, and I think that's what all businesses are going to start to think about more often.

Stephen Hall: One of my clients uses the phrase "constructive dissatisfaction." That's a wonderful way of describing the kind of ethos that you want to see in a company that's going to continue to improve. From the CEO down to people at the frontline level, they're all constructively dissatisfied with their current level of performance and are always looking for ways to take the next hill, to move things forward, to improve, to extend.

That mind-set ultimately is what distinguishes companies that continue to lead and that thrive in what are increasingly turbulent and high-change environments, versus those that ultimately get through a process but collapse, exhausted at the end of it.

Tim Dickson: I'm afraid that's all we have time for today. Thank you, Doug Yakola, Stephen Hall, and Michael Bucy, for making the time to speak with us. To learn more about McKinsey's thinking on transformations and other hot topics in business and management, please visit McKinsey.com. □

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