

# Key success factors in a strategic transformation: A conversation with Kevin Laczkowski

Leadership plays a critical role in building conviction and commitment for a sustained strategic transformation.



**A strategic transformation** can take two to three years. In this video, McKinsey senior partner Kevin Laczkowski discusses how corporate leaders can position their companies to succeed on this journey by following some guidelines. An edited version of his remarks follows.

In strategic transformations, which are typically journeys of two to three years, leaders encounter many challenges. First, a lot of ideas may be generated within a company, but there may be no alignment on which ones will move the needle on value creation and which ones to pursue.

The second challenge is biases. Many times management teams have a legacy bias toward how they've done things before. They may have allocated resources in a certain way in the past, and they want to continue to do that.

The third thing that's very challenging about strategic transformation is the funding of initiatives. In a performance transformation, typically the dollars are hitting bottom line quickly, which creates a self-funding model. In a strategic transformation, some of the initiatives could require significant time or a substantial investment.

Whether it's the introduction of new products, expanding into new geographies, changing business models, or investing in digital capabilities, all of these strategic moves typically require upfront investment before a company realizes the financial benefit. A funding mechanism built into the road map for a strategic transformation will help make these moves possible. That's why often you'll see strategic transformations done in conjunction with a performance transformation, so that the entire transformation is self-funding.

### **Leadership skills for a strategic transformation**

Leadership plays a critical role in building conviction and commitment for a longer-term strategic transformation. They must get alignment from the management team around the big moves,

which often isn't easy. Typically, a company that is undergoing a transformation is either at a crossroads or it doesn't believe it's achieving its full potential. Its leaders see disruptions in the marketplace that they need to get ahead of. And they're usually presented with a flurry of ideas on how to move forward.

Leaders can build alignment by testing all the potential moves against value creation. That provides a mechanism for management to prioritize which moves are going to move the needle and determine which ones they want to execute.

What does it take to sustain a transformation? First, management needs to stick to the recipe and not declare victory early. Second, it needs to reinvest in the pipeline by generating additional ideas. We've seen that the companies that are most successful in executing transformations are those that continually reinvest in their pipeline.

Third, management must focus on organizational health in addition to performance. That's a key element that companies often miss. Our research shows that companies that focus on both performance and health tend to outperform those that don't.

To succeed in strategic transformations, CEOs need to take several steps. First, they must demonstrate a huge aspiration by setting the bar very, very high and going for their company's full potential.

Second, they must have the support of their board. Some strategic transformations can dilute profit margins in the first year, which means a CEO needs the board's backing before heading down this path. Third, you need the intensity and energy to be willing to make several big, bold moves simultaneously.

One more point I'd like to add about a strategic transformation is the importance of resource

reallocation. Resources tend to be very sticky.  
I tell CEOs: “You have to be ready to reallocate

resources because that's going to be essential to  
the success of most strategic transformations.”

**Kevin Laczkowski** is a senior partner in McKinsey's Chicago office.

Designed by Global Editorial Services  
Copyright © 2019 McKinsey & Company. All rights reserved.