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Sustaining the momentum of a transformation

Recovery & Transformation Services November 2016

Five elements can keep bad habits from reasserting themselves.

Six years ago, the executives of a North American engineering business realized the company's earnings momentum had stalled. Shareholders were restive, and the board was pushing to set a new growth trajectory. The CEO and senior colleagues responded in a logical and determined way, embarking on what proved to be a Herculean and seemingly successful effort to transform the business. The company's earnings before interest, taxes, depreciation, and amortization (EBITDA) increased by more than \$100 million, and its cash position improved by \$150 million (both of these figures were higher than the original targets). It declared victory 18 months later.

Earlier this year, the same business filed for bankruptcy.

The story is a salutary one for any company undertaking a major transformation. On the face of it, and thanks to the CEO's sheer force of will, the business had identified much of its hidden potential. It had made many tough and painful decisions, its financial performance was once again on an upward trajectory, and its board and shareholders had breathed a collective sigh of relief when the program was over.

However, its success was an illusion. After the initial hard work, the company slowly but surely slipped back into its old ways, siloed thinking again prevailed, and a top-down approach to corporate culture reasserted itself. In short, those involved had not changed the organization sufficiently to sustain and accelerate its progress in subsequent years.

The importance of sustaining a transformation may sound obvious—and the actions required straightforward. But they're not. Companies typically neglect this long-term imperative because, understandably, they're obsessed by the short-term gains. They underestimate the difficulty of kicking old habits and developing a healthy new approach that will be manifest in thousands of everyday actions rather than referenced by a simple checklist. New skills, intense discipline, and strong personal relationships are needed to maintain the momentum (see sidebar, "Three common pitfalls").

The key to sustaining a transformation is to embed what we call an "execution engine," a replicable process that fundamentally changes performance rhythms and decision making in the business. It's about raising sights beyond the strategic choices and daily initiatives to change *how* the organization works.

Three common pitfalls

It's hard to spot when companies revert to old habits and allow performance to lag. Winding up the transformation prematurely, losing financial discipline, and giving in to change fatigue are three common failings.

Winding up the program prematurely.

After delivering one year of cost savings, a consumer-packaged-goods company reverted to its old routines of monthly budget reporting and quarterly reviews. It shut down the transformation office that had scrutinized initiatives on a

weekly basis and abandoned measures that made individuals accountable. The company also replaced the chief transformation officer with a less experienced, less credible person.

Losing financial discipline. A mining company neglected to embed its savings and efficiency gains in budget lines in the years following the formal transformation. As a result, it lost the transparency that had facilitated earlier efforts and, before it had time to reset its course, it found underlying performance slipping back.

Giving in to change fatigue. Executives in an oil and gas business reduced their productivity targets and deferred urgently needed actions, citing change fatigue. They were reluctant to refresh the program, reallocate resources, or inject new ideas from outside the company. Employees noted what they interpreted as the senior team "taking the foot off the gas pedal": many operational savings in the company's support and maintenance functions were canceled out as costs crept back up again.

We believe there are five broad ways to build this engine:

1. Take an independent perspective.

Challenging everything is exhausting, but companies that sustain change are never satisfied with the situation today. They continue to look for fresh facts, rather than accepting the status quo. They guard constantly against falling back on negotiated targets that managers will accept easily.

2. Think like an investor (particularly, a private-equity firm).

This mind-set is not always popular inside organizations, but adopting it is not just for the executive team. We all know how passive employees kill the dynamism of a business. Employees in successful companies sustain their transformation by constantly challenging colleagues, not just getting along. They refuse to settle back into a leisurely pace of decision making. And they pursue new sources of value.

3. Ensure ownership in the line.

During the transformation program per se there is an inevitable tendency for management and outside advisers to set the targets (as happened with the North American engineering company). This should be resisted. Businesses with large central teams that own centrally imposed initiatives, embedded in budgets without buy-in from managers, are most at risk of falling back into their old ways.

4. Execute relentlessly.

It's all too easy for companies to allow the pace to let up once the initial improvement targets are achieved. It's simpler to delegate, after all. But when senior executives go back to high-level target setting and avoid immersing themselves in the details—perhaps on the dubious pretext that they don't want to micromanage—the warning lights should be starting to flash.

5. Address underlying mind-sets.

Inspired employees make all the difference in an organization and in our experience conspicuously outperform those imprisoned by a traditional command-and-control culture. Managers should not just challenge; they must instill meaning. They must recognize extra effort. And they should not assume that employees necessarily understand why the company has to operate in a different way in the future.



Executives that sustain a transformation continue to bring these five disciplines to their monthly operating meetings, to their annual budget discussions, and to their everyday management routines.

Transformation success, they realize, ultimately is not about the scoreboard and whether the organization can deliver \$100 million, or \$500 million, at the end of the formal exercise. It is whether the transformation has ingrained a repeatable, replicable process that will drive better and better results long after the transformation is over. □

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