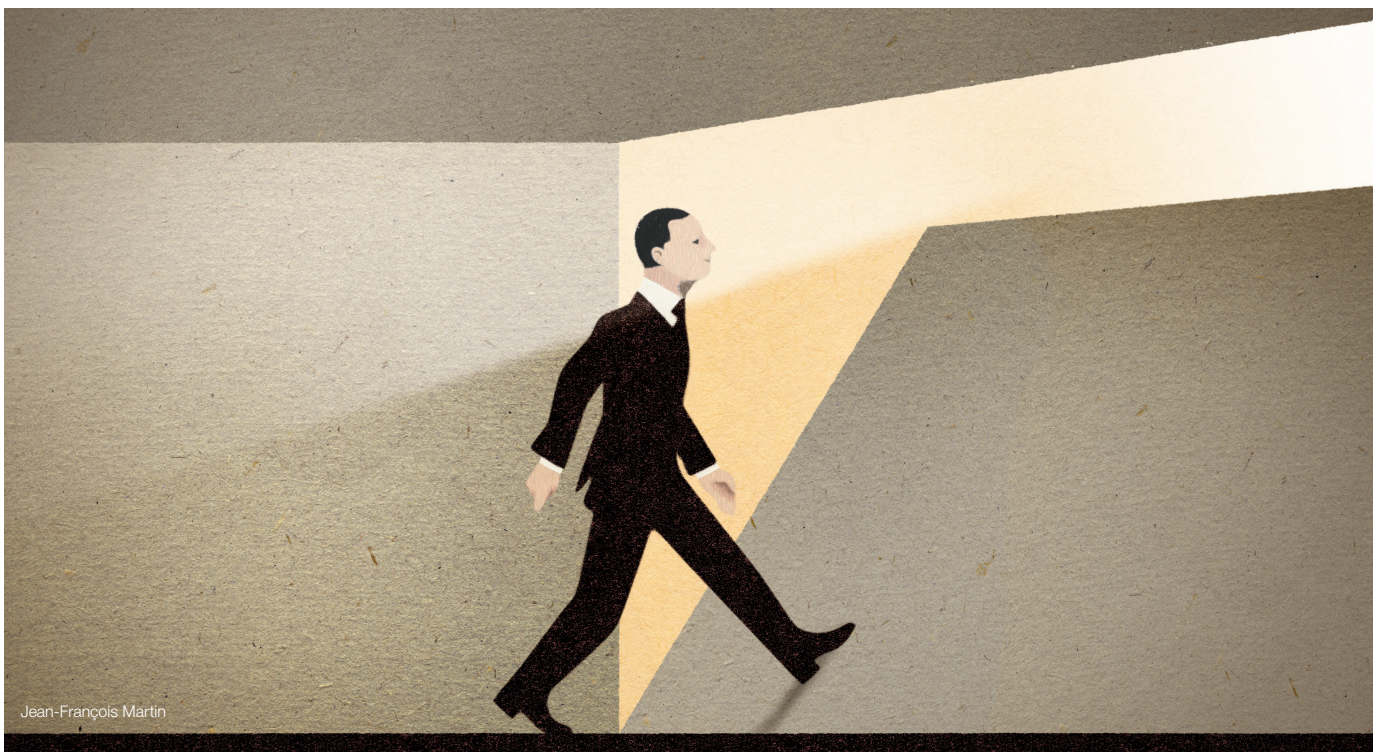


How the implementation of organizational change is evolving

Digital solutions pose new and unique challenges to the implementation of major change efforts. But the capabilities that support better outcomes remain as critical as ever, a new survey shows.

Companies face different challenges today when implementing large-scale changes than they did in 2014, according to a new McKinsey Global Survey on the subject.¹ In particular, digitization poses new obstacles to implementation, and digital transformations require executives to focus on different priorities and capabilities.

Across all types of transformations, few survey respondents say their organizations' change efforts have both improved performance and sustained those improvements. Since the previous survey, organizations have not become much better at executing the core capabilities and practices that support success in large-scale change programs. But in the case of digital transformations—which over half of respondents report as their organizations' most recent change efforts—the results point to key practices that can improve the odds of success.



The changing face of transformations

The latest survey results indicate that success remains elusive. Only 37 percent of respondents report successful implementations; we call this group “top implementers.”² The most common practices for supporting successful change efforts remain the same as in 2014. These include leaders owning and committing to the change being made, role modeling new behaviors, and devoting appropriate time and energy to supporting the change. But compared with the previous survey, smaller shares of respondents report leaders’ ownership of and commitment to change, effective processes for prioritizing change initiatives, and regular tracking of change efforts’ progress (Exhibit 1). When asked about organizational practices more broadly—beyond change efforts—respondents also report declining employee commitment. Fifty-five percent of respondents say employees spend most of their time on organizational priorities and value-adding activities associated with the transformation, down from 68 percent of respondents who said so previously.

Exhibit 1 The share of organizations following key implementation practices is lower than it was in 2014.

% of respondents agreeing that statements below describe their organizations¹

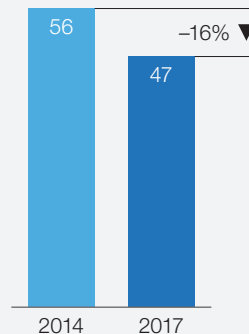
Ownership and commitment

“Leaders in the organization demonstrate true ownership and commitment to making changes happen”



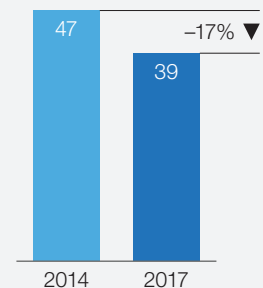
Effective prioritization

“The organization has an effective process for prioritizing the change initiatives that the organization and its individuals pursue”



Transparent tracking

“The organization regularly assesses the ongoing impact of past change efforts or initiatives”



¹ Includes respondents who said “strongly agree” or “somewhat agree”; respondents who answered “neutral,” “somewhat disagree,” “strongly disagree,” or “don’t know” are not shown. In 2014, n = 2,229; in 2017, n = 1,420.

These individual practices (out of 30 the survey tested) support seven core implementation capabilities that, in our experience and past research, are most critical to the successful implementation of change. Among top implementers, 85 percent agree that the change effort included all seven core capabilities, while only 41 percent of other respondents say the same.

The digital challenges ahead

Over two-thirds of all respondents agree that implementation capabilities are more important to the outcomes of major change efforts than they were three years ago. But to complicate matters, the results suggest that the very nature of change efforts is evolving. More than half of respondents say their organizations' most recent major transformations involved the implementation of digital solutions.³ The results suggest that digitization poses new, and meaningful, disruptions to implementing organizational change. One such challenge is the scope and scale of digital transformations. Seventy-five percent of respondents whose companies have undertaken them say their change efforts span more than one business unit or function, compared with 64 percent who say the same about traditional transformations.

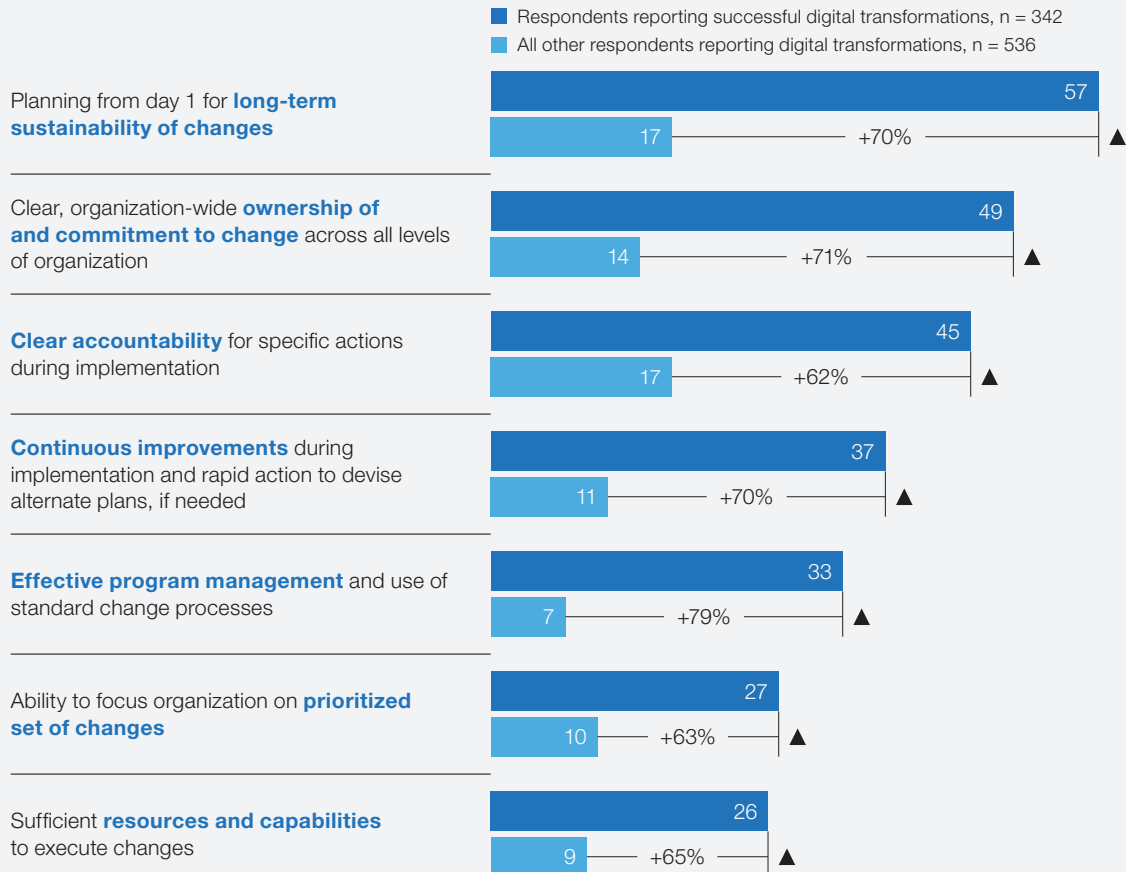
Digital transformations also require new skill sets and resources, but finding the right people for this work is a major hurdle. Just one in three respondents say it has been easy for their organizations to internally source the necessary piloting and rapid-prototyping skills for digital solutions. Even respondents from the top implementers are more likely to say their organizations struggle with sourcing skills than with any of the other digital-implementation practices we asked about.⁴ Yet only 57 percent of respondents say that if their companies did not have the right skills in-house, they had a process for sourcing them externally.

Last, digital change efforts necessitate new approaches, particularly for assessment. Respondents are less likely now than in 2014 to say that their organizations regularly assess the impact of initiatives and changes once they have been implemented. But among the top implementers, those undergoing digital transformations are more likely to report this practice—along with testing major changes in smaller, controlled environments—than their peers involved in conventional change efforts. This result suggests that assessment is even more critical to the outcome of a transformation that involves digital solutions.

More than half of respondents say their organizations' most recent major transformations involved the implementation of digital solutions.

Exhibit 2 Top digital implementers are much likelier than others to plan for long-term sustainability and to demonstrate a clear commitment to change.

% of respondents whose organizations have core capabilities in place¹



¹ Includes respondents who said “strongly agree” or “somewhat agree” with each statement that supports 1 of the 7 core capabilities. Respondents who answered “neutral,” “somewhat disagree,” “strongly disagree,” or “don’t know” are not shown.

Of the seven capabilities, successful digital implementers most often report that their organizations plan for long-term sustainability and demonstrate commitment to the changes (Exhibit 2). The top digital implementers are more than three times likelier than others reporting digital transformations to say that from day one, their organizations planned for the long-term sustainability of the changes they made. Across the core capabilities, the top digital implementers are furthest ahead of their peers in effective program management.

The keys to success in digital transformations

In addition to assessing the outcomes of the overall transformations, respondents whose organizations have implemented a digital solution were asked to evaluate their organizations' execution of four phases of a digital transformation: setup, piloting, scaling and implementation, and sustaining changes. Notably, while following every practice within each phase correlates with more successful outcomes, the responses suggest that some practices in each stage are particularly critical.

Setup

During the setup of a digital transformation, the results suggest that communicating clearly and establishing priorities are the most important practices for the successful management of that effort (Exhibit 3). When respondents agree that their organizations' desired outcome for the digital solution was clearly communicated prior to its launch, they are 3.5 times likelier than others to report a successful transformation. When potential ideas for the digital solution are prioritized clearly, success is 2.7 times more likely. Expertise is also a success factor. Forty-seven percent of respondents report that implementation is successful when people with the most relevant expertise develop the business case for the digital solutions. When the business case was developed by others in the organization, such as the program-management office, just 18 percent of respondents report success.

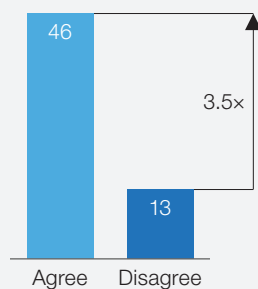
Exhibit 3

During the setup of a digital transformation, respondents say clear communication and prioritization, and relevant expertise, matter most.

% of respondents reporting successful transformations¹

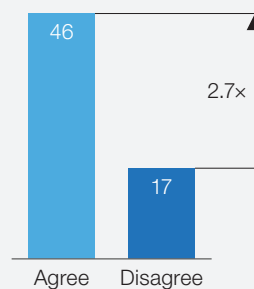
1. Communication

"The organization's desired outcome for the digital solution was clearly communicated prior to its launch"



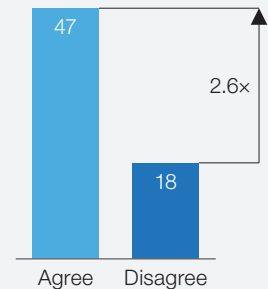
2. Prioritization

"Potential ideas for the digital solution (ie, which aspects of the business to digitize) were clearly prioritized prior to its implementation"



3. Expertise

"The people who developed the business case for the digital solution had the most relevant expertise"



¹ Respondents who say their organizations' transformations have been successful at both improving performance and sustaining those improvements over time, n = 509. Out of 8 practices to set up a major change effort.

Piloting

Communication also is a differentiator for success among the piloting practices. Half of respondents report success when the timeline for implementation is communicated clearly; only 16 percent report success when it isn't. Likewise, skills management has a strong bearing on transformation outcomes. Respondents are three times more likely to report success when piloting and rapid prototyping help to identify necessary new skills, and more than two times likelier to report it when their organizations have clear processes for identifying the necessary external skills.

Scaling and implementation

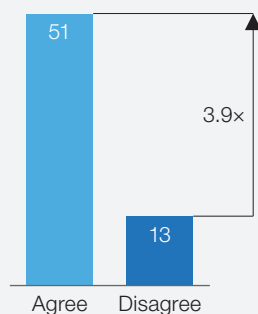
In 2014, respondents cited scaling and implementing as the phase most critical to a major change effort's success. In the newest survey, responses point to the importance of key performance indicators (KPIs) to ensure that the solution is having the desired effects (Exhibit 4). Among respondents who say that their organizations monitor KPIs as part of implementation, 51 percent report success, compared with only 13 percent who report it where KPIs are not monitored. Success is also over three times more likely when organizations train employees to use the digital solution, establish clear processes for handing off solutions to specific business units, and enable employees to master solutions as soon as they are implemented.

Exhibit 4 When a company monitors key performance indicators during a transformation, its change effort's success is four times likelier.

% of respondents reporting successful transformations¹

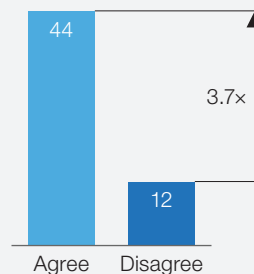
1. Performance management

"The organization closely monitored the solution's key performance indicators to ensure that its implementation was having the desired effects"



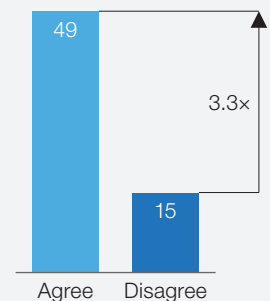
2. Training

"The organization held dedicated training sessions to teach employees how to use the digital solution in their business units"



3. Capabilities

"After piloting, there was a clear process in place for handing off the solution to the relevant business unit"



¹ Respondents who say their organizations' transformations have been successful at both improving performance and sustaining those improvements over time, n = 509.

Sustaining changes

Finally, once a digital solution has been implemented, the most important practice for sustaining changes is embedding the solution's KPIs (developed during setup and tracked during scaling and implementation) into the organization's long-term processes. The responses suggest that organizations following this practice are seven times more likely than others to see successful transformations. Further, success is more than four times likelier when the organization focuses on two other practices: ensuring meaningful change in how the organization operates after the solution is implemented and allowing employees across the organization to improve and refine the new solution continually.

Looking ahead

In response to challenges the survey results revealed, here are some steps executives and their companies can take to improve the implementation of major change efforts—and digital change efforts in particular:

- **Stay engaged and be aware of blind spots.** Given the importance of effective implementation, leaders of companies undergoing both traditional and digital transformations must be fully engaged in the effort. A lack of leadership engagement can put the success of any major change effort at risk. The most senior people can lead the way in a change effort by role modeling new behaviors the transformation requires, for example, and by being conscious of the organization's ability—or inability—to execute in priority areas. It's just as important to mind the blind spots and potential problems as it is to know an organization's strengths of execution.
- **Allocate time to finding the right skills.** One challenge, even for the best organizations, is sourcing the right resources and capabilities for implementation. It's critical that companies spend more time deciding which resources, skills, and even individual employees can best support the changes at hand. Once the right teams are on the ground, leaders and managers must allocate time to helping employees prioritize their work. With digital transformations spanning more business units (and often involving more initiatives) than traditional change efforts, it is even more difficult for employees to focus on the right activities. Leaders should be clear about their objectives and communicate early and often with employees to confirm that people focus on the right activities and that their work adds value to the broader transformation.
- **Lead with agility.** A digital transformation in particular calls for flexibility and agility from both leaders and teams. It's critical that employees have targeted actions to take, but leaders need to assess progress more effectively and to make adjustments as needed. The reason to focus on KPIs during scaling, implementing, and sustaining changes in a digital transformation stems from the need to respond quickly to a rapidly changing environment. Leaders must be able and willing to assess their change programs continually and not be afraid to pivot to higher-value work when the KPIs tell them to do so. ■

¹ The online survey was in the field from April 18 to April 28, 2017, and garnered responses from 1,528 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. Of them, 1,420 have personal experience with major change efforts in the past five years, at either their current or previous organizations—and 878 say the most recent change effort that they are familiar with involved the implementation of a digital solution. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

- ² We asked respondents about the most recent major change effort at their organizations, and successful implementations are those that respondents describe as moderately or very successful at improving performance (measured by, for example, profitability, return on capital, market value, and/or lead-time reduction) and moderately or very successful at sustaining improvements over time, following the full implementation of the change initiatives.
- ³ In the survey, we defined a digital solution as any changes—either internal or externally facing—that involve the use of digital tools or technologies, such as automating formerly manual work, improving methods to track work with digital tools, or expanding the functionality of digital customer interfaces.
- ⁴ The survey asked about 28 practices related to the implementation of digital changes across four phases—setup, piloting, scaling and implementation, and sustaining changes—and the extent to which respondents agreed that each practice was followed by their own organizations.

The contributors to the development and analysis of this survey include **Blake Lindsay**, a senior implementation leader in McKinsey's Denver office, as well as **Eugène Smit**, a partner, and **Nick Waugh**, a senior implementation leader, in that office.

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