To make a transformation succeed, invest in capability building

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Companies can vastly raise the odds of success if they take the time to build the needed capabilities.

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Not all transformations or organizational-excellence programs succeed. But, on average, companies that implement effective capability-building programs as part of their transformations beat the odds: their transformations are 4.1 times as likely to succeed and derive 2.2 times the benefits from earnings before interest, taxes, depreciation, and amortization as those of other companies.

Capability building is particularly critical in manufacturing transformations. The "second machine age," in which virtually all manufacturing processes are being digitized, requires an equally sweeping upgrade of skills and capabilities as manufacturers compete with new and agile "digitally native" competitors. The digitized factory of the future—and, increasingly, of the present—requires expertise and skills in the Internet of Things and data analytics, for example. And not only for running highly automated processes more efficiently; manufacturers must also develop digitally enabled business models that let them maximize the value that data and digital can create.

There's little question that manufacturers need new types of employees, such as data scientists and cloud computing specialists. Overall, companies need talent with more complex skill profiles and employees who combine functional, technical, and leadership competencies to drive performance in increasingly competitive markets. What's more, companies need to build these capabilities at a rapid pace, to match the new speed of business. But outside hires alone won't be enough to fill all of these demands at once. Current employees will need training to work in new ways and master their new digital tools.

Most companies fail to invest in capability building

It is easy to underestimate the challenge that manufacturers face as they

contemplate business transformations, digital or otherwise, and think about how to acquire and develop the capabilities they need. Yet most companies struggle to fill capabilities gaps in their "business as usual" operations. In a 2014 McKinsey survey of 1,448 executives around the world, half of all respondents agreed that capability building was among their organization's top three priorities. Yet only 14 percent of these executives rated their company's learning programs for frontline staff and senior executives "very effective" at preparing employees to drive business performance.

Companies also recognize that they are not doing a good enough job in developing digital capabilities among their leaders, who will be increasingly important to future success. In a 2015 survey of corporate learning officers, 94 percent said that their company's leadership capability offerings were at least "average." But for digital and technological capabilities, the number fell to 76 percent.

Success factors

Even as digital business processes take root, the basics of successful capability building remain the same. We identify four essentials for success:

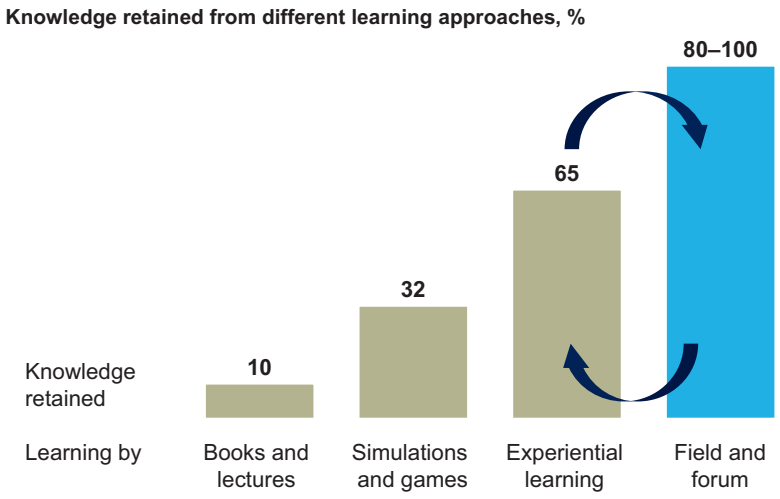
- **Build the capabilities that matter most** for the value drivers of your business. Effective programs contribute to business strategy and meet clearly defined business needs. There is no point in building capabilities for capabilities' sake.

- **Tailor training** to the organization's unique starting point and specific requirements. Start with a rigorous diagnostic to understand where the organization is today and where it needs to be tomorrow.

- **Use adult learning principles.** Adults learn most effectively by doing. To ensure that training is directly relevant to the employee's everyday work, the "field and forum" approach wcombines classroom-based instruction with experiential learning (Exhibit 1). After being trained on a new process or technology at an off-site "forum," employees go back to their jobs in the "field," where they must carry out specific assignments that reinforce the new skills in their daily work.

- **Measure and track progress.** Just as individuals' progress must be measured and tracked, so must a capability program's. Otherwise, it may not scale quickly enough to

Exhibit 1. Hands-on learning is the best way to develop new skills and set new aspirations to execute a successful transformation.



Source: John Whitmore, *Coaching for Performance: GROWing Human Potential and Purpose - The Principles and Practice of Coaching and Leadership*, fourth edition, Boston, MA: Nicholas Brealey, 2009; McKinsey interviews

help the organization meet its performance targets and sustain long-term health. Aligning training content and delivery mechanisms with the organization's existing processes and systems (for example, its performance-management programs) helps keep capability building on course.

Design and implementation

Broadly speaking, companies fall into two camps in defining the scope of their capabilities programs. The first designs a light intervention that supports the implementation of technical-system improvements. The second commits to a more rigorous program that serves as the transformation's starting point. We emphatically recommend the latter. The most effective capability building we have seen embeds itself deeply in the organization, and it is delivered by people who can design and implement a new, improved way of working that underpins the entire transformation.

The next step is to define which competencies the program will attempt to impart to different types of employees. Competencies must be relevant to the business requirements for each role and tenure level. At the same time, training should also provide employees with a well-rounded set of general functional, technical, and leadership skills that are essential across a broad range of roles.

Once the type of program is selected and the required skills are identified, appropriate learning programs can be designed using a wide range of delivery techniques (Exhibit 2). We find that a 70/20/10 mix of on-the-job, peer-led, and instructor-led training usually provides the right emphasis on experiential learning.

Exhibit 2. A combination of training delivery techniques enables effective and scalable learning.

Lectures in classroom	Web-based games and simulations	Site visits and diagnostic assessments	Coaching
▪ Lectures on concepts and new approaches ▪ Held by internal and external experts	▪ Simulate effects of real-life decisions ▪ Risk-free environment to test and learn	▪ See and feel best practices in action at model factories ▪ Clients located globally	▪ Selective support by experts and coaches ▪ Discussion of personal learning-and-development agenda
Group work with cases	**Podium discussions and dinner talks**	**Quiz and web-based tests**	**Conferences and events**
▪ Work in teams of 3–5 on real-life cases ▪ Groups present results, judge best group	▪ Dinner-table discussion with experts and renowned speakers ▪ Informal setting	▪ At end of day, web-based test of learning ▪ Serves participants as self-test only	▪ Annual conference and awards program
Role plays	**Gallery walks**	**External practitioners and best-practice companies**	**Experiential learning sessions at model factories**
▪ Real-life experience by putting self in shoes of CxO or department head	▪ Facilitate reflection of thoughts via gallery walks	▪ Learning from best-practice companies ▪ Interactions with company and subject-matter experts	▪ Offer distinctive functional modules for experiential capability building

Source: McKinsey analysis

Creative instruction formats that raise employees' motivation levels while imparting needed skills often lead to better individual and organizational performance. For example, online lessons let employees easily access, share, and update their training sessions on their own schedules rather than the company's, while "gamification" makes lessons more engaging and memorable. Group case competitions encourage innovation and develop teamwork skills. Model work environments replicating real-life situations provide risk-free experimentation with new equipment, technology, and ways of working.

Implementing the program

Before starting the capability-building program, companies should find small, high-impact, and—crucially—job-relevant projects that will show the impact capability building can have. In tandem, data-based assessments, at both the individual and the process level, will help clarify the right starting point and aspirations for the capability-building efforts. The next question is ownership. HR cannot own capability building by itself: instead, it should be owned jointly by HR and the various business functions, whose expertise is essential for establishing high-quality field-and-forum programs.

The program should be rolled out systematically, with careful attention to how the program will scale across the organization. Train-the-trainer and digital delivery are two ways to scale quickly and effectively.

And finally, there need to be regular progress checks at every program stage. In rough order of validity (and complexity), progress can be measured by collecting feedback forms, testing the knowledge employees have acquired, observing behavior change, and looking for operational or financial impact.

Sustaining the gains

Capability building never really ends: continuous improvement of operations depends on continuous improvement of the individual. Some companies therefore set up corporate academies or centers of excellence to support learning on an ongoing basis. Companies can also create knowledge platforms that enable employees to share and refine their best practices, or hire external experts to continually update learning. Whatever the method, the goal is for learning to become routine, with capability development a core part of the culture and how people work.

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The digital transformation of manufacturing—or Industry 4.0—requires skills that few manufacturing workforces currently have. Problem solving and creative thinking have long been at a premium, and now companies also need entirely new capabilities in areas such as technology implementation and big data analysis.

As a result, understanding operations from a digital perspective will present a unique challenge, one that companies must face head-on. They'll need experimentation and unconventional ideas, new business models, and new solutions. Much of this innovation can come from within, from the people who already know the business best. A new commitment to capability building can help unlock the potential.

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