

What every leader needs to know about organizational management

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Leaders of organizations should beware chasing the next shiny object and instead focus on practical, time-tested topics that have proved to bring success.

There's so much lore around management and organizational leadership that it can seem nearly impossible to decide what tactics, advice, or best practices to follow. In this episode of the *McKinsey Podcast*, McKinsey senior partners Scott Keller and Mary Meaney speak with McKinsey's Simon London about the ten timeless—and thoroughly researched—topics in management that they have found to be the keys to leading organizations to success.

Podcast transcript

Simon London: Hello, and welcome to the *McKinsey Podcast*. I'm Simon London with McKinsey Publishing. Today, we're going to be talking about what a wise man once called the human side of the enterprise; specifically, we're going to be talking to the authors of a new book, one that aspires to cut through management fads and fashions to get at what really works on topics such as talent, teams, decision making, organizational culture, and change.

Joining me today to discuss all this and more are Mary Meaney, a McKinsey senior partner based in Paris, and Scott Keller, a senior partner based in Los Angeles. Together, they're the coauthors of the book *Leading Organizations: Ten Timeless Truths* (Bloomsbury Publishing, April 2017). Mary and Scott, thanks so much for being here today.

Mary Meaney: You're welcome, Simon.

Scott Keller: Thank you for having us.

Simon London: I'm going to start with a rather cheeky question that comes to mind whenever I talk to business-book authors. There are many thousands of business books published every year, so the obvious question is why write another one?

Scott Keller: We would agree with you that there is not a need for just another business book. However, in a world where we do have such a proliferation of business books, articles, blogs, and everything else management related, we believe there's a need for *this* business book.

The reason for that is because, in a world of such a free flow of information, in order to stick out, what we've noticed and observed, and probably our listeners have observed, too, is that you see an increasing polarization of views and a kind of a Ping-Pong back and forth. So one day, and these are headlines that we've read, one day you'll see, "Focus on your strengths. That's the right thing to do as a leader." A week later, you'll see the counterbalanced article of, "Don't focus on your strengths." So the leader in the midst of this advice is thinking, "OK, well, what am I supposed to do? Do I focus on them, or do I not? Did I just lose the last week of my life focusing on my strengths? Was that a bad thing to do?"

In this increasingly polarized, free-flowing information-based world, what Mary and I did is that we stepped back, and we said, "These are all interesting ideas around topics that we learned about back in our MBA days, that we've helped clients with for quite a long time, and that there are proven tools, techniques, frameworks, et cetera, that help leaders in these areas, that are no longer being talked about amid the hype."

So our goal was to say, on behalf of leaders who are looking to cut through all the noise that's out there, "Well, what really works? What's actually proved to work quantitatively?" But it's not obvious. These are things that most leaders wouldn't already be putting into practice.

Mary Meaney: I'd also add that these ten topics weren't chosen at random. It's not a coincidence why we picked these. We took a bit of analysis, a bit of science, and a bit of data to try to home in on what are those timeless topics that are most important and most relevant for leaders.

We looked, for example, at all the projects that McKinsey has done since World War II. And we looked at the most critical topics that came up over and over again. We looked at the questions that our consultants asked our knowledge managers, and what questions kept coming up. And we looked at what was being published in the external world.

What we found was that there were certainly moments in time when there were spikes on particular topics. We'd call those fads. What we were interested in were the timeless topics. The topics that over the last 20, 40 years have stood the test of time and that are at the core of what it means to be a great leader and great manager.

"When we look at what it takes to succeed and thrive, what it takes to make change happen, to create a sense of meaning and purpose, there's a lot more commonality than you would expect across different cultures."

Simon London: Great. So we're not going to have time today to go through all ten topics in detail, but Scott, maybe you could give us the high-level overview of the terrain. How can you characterize these ten?

Scott Keller: So what these topics are is they're topics around three big areas. First is talent and teams. Second is organization design and decision making. And the third is managing culture and change. Now, within each of those big buckets, there are very specific questions that we answer.

For example, in talent and teams, the first question is, How do I attract and retain the talent I need to be successful with our business strategy? The second question is about talent development. The third question is about performance management. The fourth question is about high-performing teams. And together, that creates the section around talent and teams—and you get both the “How do I get the right players on the court?,” so to speak, and, if I use the Michael Jordan quote, “Talent wins games, but teamwork [...] wins championships”—we also get to how they work together.

Then in the section on design and decision making, there are three specific topics we address. First is how do I get higher-quality and higher-speed decision making to happen in my organization? Second is how do we reorganize ourselves to capture maximum value? And the third is how do we reduce overhead costs sustainably? This is the topic of bureaucracy and complexity and costs building up over time. It's something that not only plagues organizations but also civilizations. There are a lot of writers and thinkers who would go back to the fall of great empires and say it was less about a new invading army and more about the weight of the bureaucracy collapsing in upon itself.

Then we get to our last section, which has the topics of culture and change management. In that arena, we talk very specifically about how you make your company's culture a competitive advantage. How do you make change happen at scale? We call that a performance transformation. But at an enterprise level, how do you really move an enterprise to go from what we would say is becoming a bigger, fatter caterpillar, so to speak, to going truly caterpillar to butterfly?

The last topic is more personal: How do I successfully transition into a new executive role? There are, by some estimates, 8,000 executive transitions at the CEO, CEO-minus-one, or CEO-minus-two level every year in Fortune 500 companies. This is a big deal. By the way, 40 percent are considered not successful by the people who placed those in the positions.

These are, again, the ten timeless topics that we feel we've given practical, proved, but not-in-practice things for leaders to know will be successful, and not to chase the next shiny object in these spaces.

Simon London: The obvious pushback here is—the questions may indeed be timeless, I get that—but surely the answers to these questions are highly context dependent. Not just across history, but across cultures as well. What works in the German *Mittelstand*¹ may not work for a big US financial institution. So, Mary, how do you think about that?

Mary Meaney: Yes, we do see some differences. One of the tools that we use, for example, is something called the Organizational Health Index, which gives a bit of an MRI or an X-ray,

¹ *Mittelstand* generally refers to small and medium-size enterprises in German-speaking countries.

an incredibly detailed scan of where an organization is and how healthy it is. We do see differences across cultures. So, on average, Americans will tend to be a little bit more positive than, say, the French.

Having said that, when we look at some of what it takes to really succeed and thrive, what it takes to make change happen, what it takes to create a sense of meaning and purpose, there's a lot more commonality than you would expect across the different cultures. To give one example, one of the things we dived in on is to look at how to create a sense of meaning and purpose.

People go to work for a number of different reasons. It can be because of a real sense of mission in society, that would be one. A second would be a desire to make their company, their organization the leader in their industry, and see their company succeed and thrive. A third one would be about customers and trying to satisfy and delight them. A fourth sense of purpose or meaning might be working with high-performing teams, the people that you work with on a day-to-day basis.

A fifth would be yourself. Your personal career development, financial rewards, recognition. What we find across cultures is that, by and large, populations split into, broadly, those five different sources of meaning. And it's not to say that one's right and another's wrong, but rather some of the things that we have found are more universal truths because of who we are as human beings.

One of the insights that we wrote about is, a lot of times, CEOs, senior executives, and leaders will talk about the what and the how. All too often they forget the why. So bringing in that sense of meaning and purpose—and acknowledging the fact that we're all different. Therefore it's not just about telling one story; it's also about appealing to all five of the different sources of meaning. This is one way of creating something powerful that gets employees to go to that extraordinary effort.

“When we changed the storytelling to be around five sources of meaning rather than just one source of meaning, we both saw the run-rate impact of the cost program increase.”

Scott Keller: We were working with a mortgage company in the United States. It was a classic business-turnaround situation, where revenues are going flat and costs are going up, these two lines are going to cross, and the company's going to be in trouble. So what do they do? They create a cost-reduction program. And this cost-reduction program they created was pretty robust in terms of the things they needed to do. They needed to centralize, they needed to standardize—they needed a whole set of things, overhead cost reduction, et cetera.

Now, what happened with the CEO was he put in place this program and didn't see any results. So costs kept creeping up. The revenue line stayed where it was. They were closer to the end, essentially. That's when we got involved, and we used this particular situation as an opportunity to test what Mary was talking about.

What we did is we went in, and we looked at the communications. The communications were very much, as Mary put it, the company story. It's, "Hey, our costs are rising at too great a rate versus our revenues." We said, "Let's talk about the other four sources of meaning." At the same time, it is a cost-reduction program, but why are we doing it?

Well, first of all, if you think about the society mission part of the world, we're a mortgage company—we put people into homes. If we do this, we're going to be able to put more people into homes, make more people's dreams come true. We're going to be able to bring families together because where do families meet other than the home? There's a bigger story here in terms of the impact we can have on the world. Let's look at the impact on the customer.

What is great cost reduction, if not making things simpler? If not reducing errors? If not streamlining things? We're going to be able to do things faster on behalf of the customer, with fewer errors, in a way that's going to delight our customers if we get this right. Similarly, with the team idea, and I won't go through all the detail here, but the idea of people coming together, working together for one plus one equals three, was part of it.

Then at the individual level, wow, what a unique opportunity as a leader to learn an entire new turnaround skill set. That whether you're in this company or not is going to be setting you up to have more success, more impact in the world. So when we changed the storytelling to be around five sources of meaning rather than just one source of meaning, we both saw the run-rate impact of the cost program increase. They had a monthly culture, or morale, survey. They also saw a big uptick in the morale survey.

We've since done that in multiple geographies, and it's a human thing—it's not "Am I Chinese? Am I in Australia? Am I in the UK? Am I in France?"—it's a human thing when it comes down to this.

“What are the most critical roles that really create that value? They're not always the most senior.”

Simon London: Let's talk a little bit about talent. In many ways, it begins with bringing in and developing the right talent in any organization. What's the timeless truth there?

Scott Keller: In each of the chapters that we talk about, we talk about three particular timeless truths. The first truth, I'll—just in the spirit of time—focus on, is the notion of focusing on the 5 percent that create 95 percent of the value. Now, this is different than saying, "We want to attract and retain talent, and therefore we're going to fix our talent-recruiting process. And we're going to fix our employee value proposition."

Let me go to Hollywood for an example. Because the idea of focusing on the 5 percent that add 95 percent of the value—a great analogy is, for those who have seen the movie, *The Blind Side* with Sandra Bullock. And obviously, many of our listeners around the world won't have seen that, so a quick synopsis is, it's a movie that talks about American football. The reason it's called *The Blind Side* is based in how American football players are paid, and beneath that there's a reason for why they're paid that way, which accounts for it.

But when you ask most people, and most people know enough about American football to answer this question, if you ask them, "Who's the highest paid player on the field?," most people will say, "The quarterback." And they will be right. The quarterback is the one who touches the ball, makes most of the plays, and is always involved in managing the team down the field to score points.

If you ask people who is the second highest-paid player on the team, most people will choose another player who is someone who touches the ball often and helps move it down the field, whether it's the running back or the wide receiver—and they'd be wrong. They'd be wrong because it turns out the second highest-paid player is what's called the left tackle, especially with a right-handed quarterback, or it could be the right tackle, with a left-handed quarterback.

The reason for that is, the role of the left tackle is to block the person who's coming and trying to tackle your quarterback, who very easily could cause an injury, because that person is coming to the quarterback's blind side, as it is. So this is a very important position that most people would say, "That's not obvious to me, that we need to recruit a great left tackle, and we're going to pay them the second most on the team."

What we found is when organizations talk about, "Who are our quarterbacks? Who are the people who play the roles on our team that create the most value?," they often get it wrong. And they often get it wrong because they forget to take into account those roles and positions that protect the value, so to speak.

So if I give an example, in the US Navy, and you've got a nuclear submarine, you're going to want to have a great commander of that submarine. No doubt. That's the quarterback. You also are going to want to have a great shipbound IT manager to manage IT outages. Because if you have a technology failure on a nuclear sub, that's a big problem. So this is a really important position that may otherwise be missed when we think about where are we sourcing our best talent.

If you go to big retailers, it's not necessarily the people running the big-box stores; it's the people who are the omnichannel merchants who are ensuring the product that's available in the stores, and online, is such that you can work across channels as a customer and have a seamless experience. If you're a logistics company, it's your logistics engineers, it's not just the people who are handling the packages and making sure they get from A to B.

Mary Meaney: One of the things that we're doing, to try to bring some of these insights to life, is work with companies to get a handle on their critical roles and the talent in those critical roles.

What we're trying to do is put in a lot more rigor, structure, analysis, and evidence. So, starting from the overall strategy, where value is created or needs to be protected, and translating that value agenda into what the set of critical roles is. It could be 40 or 50, it could be a bit more than that. But it's unlikely to be thousands.

What are the most critical roles that really create that value? They're not always the most senior, hierarchically. Sometimes they are, but they can easily be one, two, three, or four levels down in the organization. Understanding what those roles are, and then putting a lot more rigor into them—what's the work that has to get done, what do we need these people to actually do in order to create that value—and then looking at whether you've got a good match.

So let me give you an example of one of the Scandinavian companies I'm working with. Fundamental to its strategy is growing its business in China. A lot of that is based on mergers and acquisitions and new business development. One of the critical roles, about a billion associated with it, is its head of China. A second critical role is its CFO in China.

What's interesting, though, is when we looked at who they had in that specific role, it was someone who's really good at cost cutting but had no business-development or M&A experience. So there was a clear disconnect. Having those kinds of conversations to make sure that you are very clear on, "What is that 5 percent of roles that disproportionately create value? And do you have the people with the knowledge, the skills, the aptitude, the experience to deliver that?" This is one of the things that we're seeing sets companies up for success.

Simon London: OK, you got your talent in the organization. You're focusing on the top roles. How do you manage performance? As you said a little earlier, Scott, this is something that generates a lot of noise around things like stack ranking systems, or forced ranking systems, and so on. What are the timeless truths here around performance management? What works?

Mary Meaney: As you said, Simon, this is definitely a hot topic. Over the last few years, we've seen lots of headlines with high-profile companies announcing that they were abandoning their performance-management system, or eliminating ratings entirely.

We looked and did a careful research effort at this specifically, to try to understand what we believe: What do we think is the right answer? How do you manage and optimize performance across your broader employee base? There were a couple things that came through. One thing that was interesting was many of those companies that had publicly abandoned their systems were coming back to them, or introducing shadow ratings. Because at some fundamental level, employees want to know where they stand, and they want to know how they're doing.

Where we came out is you still want to keep ratings, but you probably want to simplify them, so you want to make sure that you don't have the 41-point scale that one of our high-tech companies has, or the 46-point scale that a UK public institution has. You probably want to be somewhere in the zone of three to five.

The second thing that we found was the importance of decoupling, because, all too often, organizations tend to mix everything up. They'll tell people once a year how they're

doing, what their rating is, how much money they're going to get, and their strengths and development needs.

Unfortunately, for most employees, what they tend to overindex on is, "What's the number? What's my rating? What's my bonus? How much am I going to get paid?" They often don't integrate and understand all the feedback around how they're doing, how they can develop, and how they can achieve their full potential.

What we strongly recommend is to decouple those conversations, decouple them in time. So, yes, you still have an administrative process to tell people how they're appraised, whether they're getting promoted, and how much they're going to get paid. But importantly, what you want to do is really invest in the ongoing developmental conversations. Giving people feedback, giving them coaching, and making sure that they understand the strengths they have—that they should be leveraging and developing to their full potential.

Simon London: Whenever I hear people talk about organization design, the thing that comes to mind are the lines and the boxes of the reporting. I suspect it's a similar lesson, isn't it? That fixating on those things is only part of the story.

Scott Keller: That's exactly right. I would use the analogy of lower back pain. I'm someone who suffers lower back pain, so I've known this well in my life. But I'm not alone. One in ten people in the world suffers from lower back pain. It causes more disability in the workplace than 300 other conditions that they catalogued. This is a big deal. The interesting thing is, when you say, "Well, what's the cause?"—it's pretty nebulous. It's pretty unclear to those who have lower back pain, when they go to a doctor to get a clear-cut diagnosis.

Some people get a structural diagnosis: you have spinal stenosis, abnormal facet joints, or whatever it might be. Other doctors will give more of a soft-tissue diagnosis: it's a herniated disc, strained lumbar muscle, pinched sciatic nerve, tendonalgia, or whatever it might be. There's still a whole other body of thinking that was popularized by a gentleman named Dr. Sarno, which talks about the mind-body link, and it's a psychological thing that's happening with our lower backs, that it's us trying to draw our attention away from unexpressed anger, and so it's got an emotional core.

So what's really the answer? Well, we don't really know, but we know it's not just one of these. We also know that it's not just the structural ones. In fact, the data say that surgery to address structural issues for lower back pain is successful about 26 percent of the time, whereas the physiotherapy and psychological interventions are successful about 76 percent of the time.

That analogy for us works well for organization design, because there are a lot of things structurally that can be changed, that can be noted as, "Hey, that's what's holding us back. That's what's making us slow, bureaucratic, hierarchical, et cetera." It's lines and boxes. It's roles and responsibilities. It's governance. It's the boundaries we draw, the location of our corporate center, et cetera. That's important stuff. But most people, when they think of org design, just go after that.

We advocate that any org design work that's done focuses across three big categories of things: structural things, process things, and the people or culture things. Those who do have upward of an 80 percent chance of success. Those who focus just on structural issues have about a 23 percent success rate.

Mary Meaney: One of the leading pharmaceutical companies created a new strategy. It knew that it had to redesign its organization in order to achieve the full potential from that strategy. It also knew that, if it was going to be successful, it had to look at it holistically. So, yes, it was going to redesign the structure, and it created new structural units, new roles. But importantly, it didn't just stop at structure. It also looked at some of the critical processes, how it needed to change its strategic planning and its budgeting processes.

It changed its performance-management processes. It changed all the incentives, to create strong incentives for everyone in the organization to help grow these new businesses, regardless of current position.

Then of course it looked at the people. The company looked at the capabilities that it needed to either acquire for the market or that it needed to build internally. The combination of all three of those things proved incredibly powerful in helping it achieve a different organization that supported and enabled the strategy.

“In order to get organizations to change, you have to get individuals to change.”

Simon London: That's great. One of the things that strikes me here is a lot of what we're talking about, whether it's organization redesign or performance management, bringing in new systems and so on, a lot of this is change. Organizations are always having to change. What is the timeless truth around change management?

Mary Meaney: One of the pieces of research that I personally found fascinating was not changing organizations but changing individuals. Because organizations don't change, people change. It's when you get a critical mass of people who are willing to change their behaviors that you start to see those organizational transformations.

So we asked ourselves, what makes individuals change their behaviors? Especially deeply rooted, deeply anchored behaviors. We found a fascinating piece of research that was done in the US, on the West Coast, that was exactly at the heart of the problem. How to get heart patients to change their behaviors.

The context was a group of researchers, where the heart patients had one or more of five serious behavioral issues: they ate too much, drank too much, smoked too much, had too much stress in their lives, or didn't exercise enough. Hopefully nothing that anyone recognizes. But as a direct consequence of those behaviors, they had serious heart disease, which led to a

major coronary bypass operation. Statistically, in the next five years, if they didn't change their behaviors, they would die. The statistics, the research, was overwhelming.

The doctors told the patients, "Change or die." This is the ultimate burning platform. This isn't *like* life or death; this genuinely *is* life or death. But what was horrifying, was that even faced with that ultimate burning platform, only 10 percent of those heart patients were able to change their behaviors in a sustainable way. So that's the bad news.

The good news is that the researchers said, "We've got to do something different. We have to find some other approaches. We have to figure out how we can change the odds." So they developed an integrative, comprehensive program that pulls on the four levers that we believe are most critical to get sustainable, successful behavioral change.

The first thing they did was to have a compelling story. They worked on creating understanding and conviction, and not just the what and the how, but the why. It wasn't just a burning platform; they also created a positive vision of the future. So if you change your behavior, you'll be able to walk your daughter down the aisle when she gets married, you'll see your son graduate from college. They created a positive change story, as well as being honest with people, that "If you don't change, then you will die."

The second thing that they did was they created reinforcing mechanisms. They had people meet regularly. They set targets. They monitored and measured those targets.

The third thing is that they taught them skills. Many of these people didn't know how to quit smoking. They didn't know how to cook in a healthier or different way. They needed to be taught meditation techniques, and exercises that they could do that were compatible with their heart condition. There was a whole element around creating the skills and capabilities that they needed in order to change their behavior.

The fourth was role modeling. They brought in people from the previous group, from the 10 percent who had successfully changed. People just like them, who came back and shared their experiences and gave them hope and confidence. What we find in our work across organizations is that, in order to get organizations to change, you have to get individuals to change. In order to get individuals to change, you need all four of these elements.

Simon London: So sadly, we're out of time for today. But Mary Meaney and Scott Keller, thanks once for coming in. And thanks for the fun discussion. Thanks to you, our audience, for listening.

To learn more about the book, *Leading Organizations: Ten Timeless Truths*, you can find it through your favorite bookstore. Or, you can find out more about it, and about our work in organization more generally, on [McKinsey.com](https://www.mckinsey.com). [□](#)

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