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Why transformations fail: A conversation with Seth Goldstrom

February 2019

Transformations can fail for a variety of reasons, but most unsuccessful efforts share some of these ten weaknesses.

Despite the best intentions, many organizational transformations fall short of their goals. In this video, McKinsey senior partner Seth Goldstrom discusses ten common problems that often derail a company's efforts to refocus. From failing to convey the right change story to assembling the wrong team to lacking an effective process to track initiatives, all of these mistakes can thwart a successful transformation plan. An edited transcript of Seth's remarks follows.

Interview transcript

From our research, we've found the following ten reasons that transformations fail:

1. The first reason is that the top team isn't aligned around the change story or the change story isn't really compelling from a hearts-and-minds perspective. A lot of folks are excited about financials and share price and their incentive compensation. But other people need different sources of meaning. You need to tell a story that's meaningful to everyone.

2. The second reason is that the organization fails to set performance aspirations that are based on its full potential. A lot of times, targets get watered down. On average, when you set numbers based on an organization's full potential, not based on what someone is comfortable with, the numbers end up increasing 2.3 times.

3. The third reason involves what we call the "and" versus the "or." A lot of times, you'll hear, "Well, we could cut the cost, but it's going to sacrifice growth, or customer experience, or safety." But companies that do this really well just say, "There's no false trade-off here. We're going to do everything well." It's not a trade-off.

4. The fourth reason involves decisions about will and skill. When you talk to CEOs, they often have a sense of the abilities of their teams. If they break people into thirds, they might say, "I have my 'horses.' They're the next generation of talent. They're our future leaders." You

have a group in the middle who will rise up and do a good job, but they're not lighting the place on fire. And then you have a third at the bottom who are a real challenge. And that's true also on the senior team. I've never had a CEO say, "In my gut, I knew that this person was never going to get there, and I made a change too quickly." It's always the opposite. It's having the courage to say, "Look, we've got to make some changes." And often, the remaining folks get better. They get more excited and more energized.

5. The fifth reason is that the company fails to align incentives. A lot of times, you come into a situation, and the stock options are under water or the incentive compensation is too complicated. You need to align the incentives, and that includes going beyond the financial. You have to recognize the behaviors that drive the outcomes for the initiatives that really matter.

6. The sixth reason is that the organization fails to track these initiatives, which can total in the hundreds, if not thousands, for a Fortune 500 company. What's the process and the structure by which you're going to track things, from an idea all the way to when it hits the balance sheet, and make sure it didn't leak? A lot of companies don't do that well. And as a result, they're filling the bucket, but half of it is leaking out the bottom.

7. The seventh reason is that the company focuses on activities as opposed to outcomes. You have to move both pieces. For example, in Lean Six Sigma—which I'm a big proponent of—sometimes, those things fall short because people get too focused on the activity as opposed to the result.

8. The eighth reason is that the organization plunges into an activity without adequate preparation. Sometimes, companies will get excited about the "sexy" stuff, such as digital and advanced analytics. But if you don't have a solid basis of execution and if you haven't created some of the basic building blocks, you're building a house on quicksand.

9. The ninth reason is that companies don't always build a deep bench with the right talent and capabilities. When you think of what the top 100 roles are in an organization from a talent-to-value perspective going forward and compare them with the top 100 roles from the last five or ten years, often, they're very different. Companies often don't address that.

10. Last, and most important, is that the organization doesn't focus on growth enough. Companies that do transformations well are as obsessive about growth as they are about cost. Every day they ask: "What can we do to change the growth trajectory of the business?" And it's not just tactical growth. It's sales and pricing and step-out growth. They're really thinking about their strategies and what they can do to grow the business. ◻