

Setting aspirational targets

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Companies should bear in mind four principles during the target-setting part of the transformation process.

One of the most important steps in a transformation is the choice of a financial target. Done well, that exercise sets the tone for the whole program, fundamentally changes the way people think, and liberates leaders to achieve the unachievable. In our work with companies over the past six years, we've learned four key lessons about the target-setting process.

1. There's always more money on the table than you think

We recently looked back at 15 companies we've worked with, comparing actual savings at the end of their transformations with the numbers their managers thought they could make at the outset. The result was instructive. On average, the companies delivered 2.7 times more than their senior executives thought possible when the transformations got under way. At one industrial company, the outcome was 4.7 times greater than the original target: \$50 million.

That business was not untypical. Many management teams are prisoners of their past, more inclined to look back to the comfort of old routines than forward to the potential of doing things differently.

2. Incremental thinking is the enemy

When companies set targets, we recommend starting with what's theoretically achievable and adjusting this figure downward only when there's clear evidence that certain actions are unrealistic. People arguing for a lower number ought to shoulder the burden of proof and be challenged to support their case with facts. In short, they must answer the question "why can't we do this?"

Junior managers at a mining company, for example, initially opposed a plan to cut the journey time between the coal face and an aboveground recreation area used for tea breaks. Frontline workers, however, came up with a suggestion to build a break room inside the mine, reducing transit time to and from work areas by a fifth. The company used this opportunity to create a more pleasant environment, with a win-win result: happier workers and a more productive mine.

3. An independent view is essential

Breaking away from incremental thinking is undeniably tough for incumbent managers. A true perspective on what's possible is much more likely to come from third parties or from an internal team unburdened by "the way things are done around here." We recommend adopting the mind-set of an investor or a private-equity firm by looking afresh at each area of the business

and using benchmarks and objective analyses of relevant competitors. Companies need to escape “groupthink”; they should act boldly and get away from the sort of cozy consensus that says a 5 to 7 percent improvement—but no more—may be doable. It’s important to set a target without necessarily providing full clarity about exactly how it will be achieved.

4. Opportunities lie in unexpected places

Companies too often restrict their target setting to a search for savings. They typically neglect opportunities to, say, boost productivity, introduce pricing initiatives, make the sales force more effective, reduce working capital (in response, perhaps, to an excessive buildup of stock), or address customer dissatisfaction. There is a whole range of levers, and companies that set the most demanding targets tend to pull them all. Aspirational target setting tells the wider business that “we are open to doing things differently,” bringing to the surface ideas that may have laid dormant for years or been shot down in the past. □

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