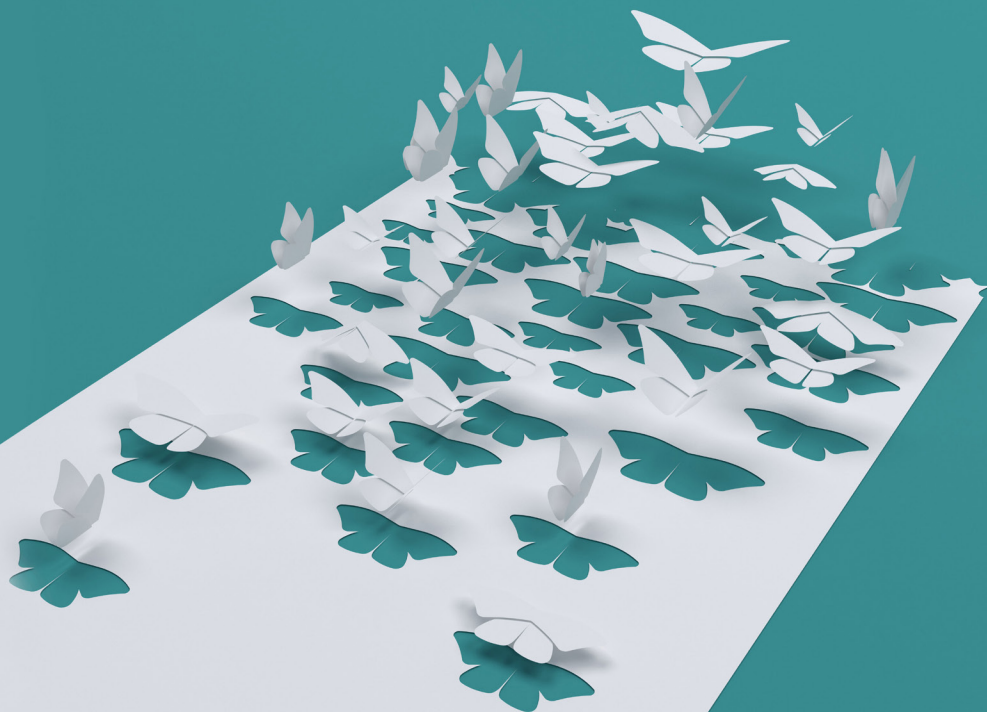# McKinsey & Company

How to double the odds that your change program will succeed

Large-scale organizational change is more likely to stick if executives apply equal discipline and rigor to the hard and soft elements that matter.

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In this episode of the *McKinsey Podcast,* Simon London speaks with senior partners Scott Keller and Bill Schaninger about the ways in which executives can boost their odds of leading successful, sustainable organizational change.

Simon London: Hello, and welcome to this episode of the *McKinsey Podcast,* with me, Simon London. There is an oft-quoted statistic that about 70 percent of organizational-change programs fail to meet their objectives. This sobering fact actually comes from McKinsey research of a few years ago. And of course, it invites the question from executives, "Is there anything we can do to radically increase the chances that our change program will succeed?" The good news is, that yes, based on years of additional research and experience, we can say categorically that there is a way to flip the odds. The methodology is laid out in a new book, *Beyond Performance 2.0: A Proven Approach to Leading Large-Scale Change* [John Wiley & Sons, July 2019]. The book is actually a thoroughly revised and updated edition of the original *Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage* [John Wiley & Sons, 2011], reflecting a decade of additional research into the science of organizational change.

To find out more, I caught up in Chicago with the authors of *Beyond Performance 2.0*, McKinsey senior partners Scott Keller and Bill Schaninger.

So, Scott and Bill, you've both done this before, but welcome to the podcast.

Scott Keller: Great to be here.

Bill Schaninger: Thank you for having us.

Scott Keller: Thanks for having us.

Simon London: You've written a book about organizational change, change management. And I think you would concede there are a lot of books out there on this topic. So why add to the pile?

Scott Keller: The promise of transformational change, which people use as a phrase often, what do they really mean by that? One analogy we use from nature about what people are trying to get at is the analogy of the caterpillar to a butterfly. And, why is that transformational change and not just change like you change your tires, you change your shirt, you change your shoes.

The key thing we think about in that kind of transformational-change environment is, you think about a caterpillar to a butterfly, this thing can't go back. To achieve change on the order of magnitude where it truly is a fundamental shift in how our organization operates that's self-perpetuating and self-improving upon, that just from a professional standpoint to help organizations and to help human beings achieve that level of change, that gets really exciting.

That's the type of change we're talking about in the book. Everyone sets out for a caterpillar-to-butterfly change. You look at ten people in a room, and you say, "Great, you're going to go do this. Oh, by the way, seven of you are going to kind of waste your time." It's not good enough for our clients. "It's not good enough for humankind" is sort of an underlying ethos of what we have. And so our view is, is there something new under the sun to share in the space? And we think there is. So why this book amidst all that, is because it actually says something different and something that we know works.

Simon London: There's this number that gets kicked around a lot, like rule of thumb: 30 percent of big change efforts succeed; 70 percent, frankly, don't meet their targets. That's what you're talking about when you're talking about the numbers and the success rates.

Bill Schaninger: We are. There's a known set of things. It's not mystical. That you can get that number, a likelihood of success up closer to 80 percent, but it's not easy. It does require resilience and "stick-to-itiveness."

And also it's not simple like, oh, one bullet's going to fix it. The more units you have, you have more people identifying with something smaller and smaller pieces that aren't the overall entity. Now you're trying to get all these people to do something different.

At its core, there's the metachange, which is the organization has to be faster. It has to make more money. Or it has to spend less, or it has to come out with new product lines quicker, all those sorts of things that are normal. One step underneath that, you go, "Oh wait, we do have 200,000 employees in 50 countries."

How are we going to get them to do this? That's the essence of it. The essence that the organization, itself, while an interesting construct, works or fails whether or not you get every individual in the organization to think and behave differently in a sustained manner in pursuit of something common. That's the hard part.

Simon London: So just to clarify because it's quite a big claim, that we think that if an organization follows the approach outlined in the book, they can get their odds of success up from the 30 percent closer to 80 percent.

Scott Keller: I would say we are reporting the facts when we say that. If the answer was 50 percent or if the answer was 33 percent, we would be bound to report the facts. We are saying that. Absolutely.

Bill Schaninger: The type of research we've done now over a decade, 2,500 organizations—had I stayed in academics and not joined McKinsey, I would've been the toast of academia for this data set.

These findings are spectacular in a way that says, "Hey, actually there's an interesting relationship here."

Simon London: So let's get to the meat. What's the big idea?

Scott Keller: The big idea, if you want to see an increase from the 30 percent success rates to the 79 percent success rates, if you want to see

caterpillar-to-butterfly results in terms of your change management, is to do what we call putting equal emphasis on the performance and the health elements of the change program you're leading. Let me talk about each of those.

First, on the performance side of things, this is what you're doing to deliver the operational and financial results that you're looking for. If I use a manufacturing example, this is what you're doing to buy things cheaper or of higher quality. It's what you're doing to make them into something else, more efficiently or more effectively. It's what you're doing to sell them into the market and service them better than you would have before.

Simon London: The changes you're making to your operations, broadly defined.

Scott Keller: Absolutely. It's really the *what* of what you're doing. Most leaders can get their head around that and say, "Yes. I know what I want to do when I take over this department or this business or this company in terms of what needs to be done to improve performance."

What doesn't often happen is that they put equal emphasis, time, effort, rigor, into the health side of the change. What's the health side? The health side is how do I align the organization on the direction we need to go? How do we execute in that direction with minimal friction in the system? How do we create a sense of meaning and renewal that fuels and perpetually improves the organization as we go? Performance is kind of the buy, make, sell side, then health is the align, execute, renew side of the change.

What organizational health is is it's a way to measure and manage that alignment, execution, and renewal as you're doing the work of the *what*—quite frankly, in an integrated way, which is what we'll get into when we talk about the methodology. Most leaders, by the way, when you share that with them, are intuitively like, "Yeah, I mean, of course, we need to align the organization on the direction. We need to execute without friction in the system."

Simon London: You've got to address the people stuff.

Scott Keller: We've got to do that. But if you ask them, "Well, what would you do with 50 percent of your time if you're going to do that stuff?"

After town halls and memos, most people run out of like, well, I don't know. Which is where *Beyond Performance 2.0* comes in is because it's a tool kit and a playbook for how you manage the people side of the equation with equal discipline and rigor to how you'd manage the *what,* or the performance side.

Simon London: All right. So let's talk a little bit about the change journey. In the book, you described it as being, basically, in five phases or stages.[1] Just elaborate on that a little bit.

Scott Keller: Any change journey typically follows kind of an S-curve. That journey can be broken up, and we break it up into five stages.

The first stage is the *aspiration* stage. It's where you're actually trying to go. It sounds pretty basic, but you've got to have an answer both on the performance side—what are our strategic objectives? And on the health side—what are our health goals? It's less clear to a lot of leaders on how do you set health goals. Once you've got that, you've got a great kind of light on the hill, if you will.

That's our *aspiration*. What's an often-missed step and why our change journey has five steps instead of three, which a lot of them do. A lot of times you'll hear, "You know, hey, diagnose, design, deliver." Once you have that light on the hill, it's absolutely imperative that you take stock of your change readiness to go there [which is step two, *assess*].

The skill and will of your organization or the capabilities and mind-sets is the way we talk about it. That gives you a lot more information in terms of what you're going to need to do when you get to step three, which we call the *architect* stage. In the *architect* stage, you're actually creating the plan. And then you've got what we call the *act* stage, which is the fourth stage.

Now that stage actually takes most of the time. That's the steep part of the S-curve. You're actually doing those things you planned to do, or you're building the blueprint that you created. You are asking people to ride the bike while they're changing the tires. You are asking them to do more, so there's a lot of work to be done in that *act* phase in terms of being able to adjust as you go and to be able to manage the energy during the process. That's stage four.

Then you get to the fifth stage [*advance*], which is, again, why we have five often missed, which is you get to the top of that S-curve. Many change programs have a pretty big infrastructure to help drive them because this is an extraordinary act of increasing the metabolism of the organization.

There are PMOs [project-management offices] or transformation officers. There's a whole set of infrastructure. There's a whole set of the way communications work. To just dismantle those and to kind of let everything go back to where it was is typically a recipe for that S-curve not to look like an S but to look like a mound.

Things will revert back to the way they were before. To thoughtfully transition into a stage of continuous improvement is what that *advance* stage, that last stage, does.

Bill Schaninger: At the end of that fourth and fifth stage, you're looking back and saying, "Actually, we're permanently changing the operating model. We're permanently changing the cadence and tenor and tone of management meetings and who gets to be in management." It is as close as we can get to the switch to the butterfly because you dismantle all the old stuff.

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[1] The five stages (and the questions that must be answered in each of them) are *aspire* (where do we want to go?), *assess* (how ready are we to go there?), *architect* (what must we do to get there?), *act* (how do we manage the journey?), and *advance* (how do we continue to improve?).

Simon London: So let's assume I've done my *aspiration* both on the performance side and on the health side. I've got a sense of where I want to go, the kind of critter I want to be as an organization. What goes into that second stage?

Scott Keller: Stage two is really the crux of why we believe we achieve truly transformational change in that caterpillar-to-butterfly sense. It's that step two that when missed, people miss the opportunity for that fundamental shift in how an organization approaches work.

Bill Schaninger: If you lay out the scale of the change that's necessary on the performance side and some of the things that you should be doing seem obvious, then we should ask the question, "Why would an otherwise well-intended person not already be doing it?" You could have the people who are buying the equipment in procurement talk to the frontline operators who are using the equipment in the field. You get a blank stare and an "Oh, why would we do that?"

So this idea of mind-sets and prevailing sentiments, if you think about when people behave, you know, they're not robots. They are all trying to solve for something. But particularly when you get to the lack of adoption of things that seem obvious, it does tend to break into things where it's not clear to them that they're allowed to do it, or they don't believe that they can either through time or resources, which is really just saying a priority thing. Or they don't want to. Sometimes the *want* to do stuff is really sticky, and it's intractable. Scott has a spectacular way of doing this with top teams where we can tease out some of these "I-don't-want-tos" because that gets into the world of power, influence, legacy, relationships, just wanting to be liked and accepted. There's a lot of smart people who have been derailed by those things.

Simon London: Do you find that senior execs, CEOs are often reluctant to tackle mind-sets?

Scott Keller: Yes. We find that's the case, and [that is] because it's, typically, the one they feel less equipped to add value or drive in terms of knowing what to do. It also feels a bit like, "Are we putting our employees on the couch and being armchair psychologists here?"

However, once they're introduced to a robust tool kit, there's an interview technique called laddering that is used. There's a number of focus-group techniques that leverage visual cues as opposed to kind of traditional let's-just-talk-about-it type things that really surface underlying thought processes.

There's also a whole level of what they call QDA, qualitative data analysis. Most people are familiar with word clouds. That's a very simple version of qualitative data analysis. You can run a number of analyses that can give you lots of good cues and good evidence for what underlying mind-sets might be in an organization. Then the last thing, I think, when you play it out for leaders just in terms of practical—how does this actually work and why would you tend to it—most leaders are onboard right away.

Let me give you an example. Let's say your strategic objectives are we want to double share price. How are we going to do that? We're going to cross-sell more, bring the whole firm to our clients or the whole company to our customers. Essentially, that's the strategy. That's your strategic objective.

What are your health goals? Let's just say the analysis takes you to the health objectives of let's increase customer focus, let's get more knowledge sharing, let's improve how we do performance management—these changes to how we run the place that'll make the biggest difference.

We just finished the *aspire* stage. Now in that *assess* stage, on the performance side, you're going to assess capabilities. Do we have the capabilities we need? If not, where can we get them? You're going to get really sharp on that.

Well, let me go to the health side because this is the mind-set piece. When you play this through, what would most companies do if they just went straight to action if they need more knowledge sharing? Most companies would look for the companies who do this well. They would find that most of those companies have a large information infrastructure, kind of a portal that you can upload data on and download data on.

Simon London: Yeah, that's not so with knowledge management.

Scott Keller: Totally. They would invest hundreds of millions of dollars potentially building this knowledge infrastructure. What would most companies do for performance management? Similar, they'd look at best practice. They'd find that the years of the annual performance review and long-winded forms are done. They would go to form-light, regular-basis conversations, and they'd say, "OK, that's going to really help us on performance management."

Customer focused, they'd say, "Well, what do great customer-focused, sales-oriented organizations do? They have salespeople who profile customers really well and understand their needs. They also know the product set really well, and so they match those two. Let's build scripts for our salespeople to ask the right questions, let's educate them on knowledge." That's going to cost a ton of money to do all that. It might be the right thing to do.

To Bill's point, why are smart, hardworking people who are generally well intentioned not sharing knowledge today? You do the laddering interviews. You do the focus groups using some visual cues and different techniques. You do the QDA. Pretty quickly, you find, wow, here's the way people think. They might not consciously think it. But they're introduced into and indoctrinated into a culture where the mind-set that predominates is that knowledge is power: "If I share my knowledge, I lose my advantage; if I share my knowledge, I find places for other people to poke holes and see what's going wrong; my goal is to not share any knowledge; my goal is to use the knowledge I have

to actually let my performance be better than the next person."

Now if you put in a big knowledge-management system and the mind-set is knowledge is power, people will give it lip service. They'll fulfill the KPIs [key performance indicators]. I submitted three things last month. And they'll never share anything of value.

They'll never draw on it for anything because they'll know it's useless. Now if you shifted the mind-set to, "Your power in the organization is proportional only to the extent to which you share your knowledge"—if that was the mind-set, you probably wouldn't need the technology infrastructure. You probably would have people self-organizing into centers of excellence saying, "Hey, let's share how we do this purchasing thing across the world. Let's share best practices." They would find out who knows what, and they would get on the phone. You still might put in a system, but it's a completely different result.

Let me take the other two just because it really brings it to life. Performance management: if people think, "You know what, giving people real feedback is a fast track to destroying relationships," no one wants to hear it. I'm not going to be the person who's going to do that. I want everyone to like me because that's a totally different mind-set than a mind-set that says, "Real relationships have a foundation of honesty." That's the only way to establish real trust with people. If you approach a performance review with that mind-set, it kind of doesn't matter what the forms are. It's just going to be a different conversation.

With salespeople, there are people who believe, "My job is to give the customer what they want." It's not a bad mind-set. A smart, hardworking, well-intentioned person could very well believe that. That's kind of their operating system. Great salespeople say, "My job is not to be a subordinate to the person across from me, to kind of be the order taker, to give them what they want. My job is to add value in this conversation. My job is to help them understand what they really need." I

don't need a script if that's my mind-set because I will ask all of the questions that the company wants me to be asking. I will find out the product information. As soon as you get into this mind-set realm, you get to the root cause of why smart, hardworking, well-intentioned people aren't already behaving in the way that you want them to behave from a management-practice standpoint. You've unlocked the key to transformation because if you can shift that mind-set, people can't go back.

Simon London: OK. But the downside of this is that once you've unlocked the Pandora's box of mind-sets, then you've got to change those mind-sets. Let me put this to you, Bill. When you come to the stages that follow, when you come to the *architect* and *act*, what's the trick? Actually how do you change mind-sets across an organizations? That sounds like a mighty hard challenge.

Bill Schaninger: Well, I think one of the things that Scott was getting at there is that once you unlock it, you can't unknow it. You have to do something about it. It's also you're not doing 20 of these. In that case, actually really understanding what everyone knows was important, because you'd work on that one.

I spent a ton of time with heavy-industrial companies where capital allocation and capital productivity was important. We discovered that along their seven-step, beautiful process was seven steps of padding.

What it really came down to, when you teased it out, was that it was better to be predictably mediocre than to be usually brilliant and occasionally really wrong. If you were to look at that kind of idea, a normal distribution of performance would be to be aggressive, push for what your really can, drive for value, drive for reliability. Every once in a while, because it's a distribution by math, you're going to have something on the other side of tail, and that should be OK. Because we condition people this way.

No one rolls into your employment and is automatically thinking that way. They're conditioned. You said, "How do you *architect* it?" The essence of *architect* on the health side in a framing that we call the "influence model" is really simple. People have traits. That's who they are. It's their personality. It's their competencies. It's their aptitude. That's all there. Then they go into an environment. That environment is created by you, the people who run the place. Then those two things come together, and it creates a state, and state increases the likelihood that you're going to behave in a certain way.

Now that's the psychobabble part of it. But *architect* is about creating an environment that dramatically increases the likelihood that you will change how you think and behave. That's why you pick a relatively small number of these: management practices, the ethos you want adopted, stated mind-sets that you'd like to be brought forward. You say, "OK. What's the best way we know how to change this environment?" Four pretty simple buckets really help people understand why you're asking them to do what you want them to do, why it's important. And make sure you stick with it until they actually have some conviction.

You don't need people singing from the rooftops right out of the gate. You do need to have enough, though, that when you're not watching, they're going to try it. They're going to do it. Adoption is a big deal. Storytelling is a big part of this, so is making sure that they hear the story with an ear toward something that matters to them, their sense of meaning.

It can't just be about the stock price. For many people, it has to be about customers, the community they're in, their colleagues, their business unit. It might even have to be, "What does this mean for me?" There are a whole lot of rules in a workplace: the formal mechanisms, the operating model, the processes, the systems. But in short, it's how resources are allocated, and it's how decisions are made. Who's involved, how fast, and with what repercussions? If you want

people to change their behavior and change what they think is important, make it easy to comply. So many times we'll say to people, "I want you to act like an owner; be entrepreneurial." Then you force them to get 12 signatures to hire an assistant. That would be inconsistent. That is an early, early proof test for the employees of the organization to look at leaders and go, "You're actually not serious."

That's the first two: the understanding and conviction and the formal mechanisms. Then we think about, "Do they have the skills they need?"Most people look at something and go, "Well, if I put forth the effort, how likely is it I'm going to get the result that they want and I want? What's the reward I'm going to get or the outcome? And does that mean anything to me?" Most people don't want to run into brick walls.

They want to believe that the work they're working on is important, is material; the outcomes matter; and, by the way, they have a chance in heck of being successful. The beauty of that, of course, is people also don't want to think it was a Hail Mary pass—in American football parlance. They don't want to think it was chance. If it does work, they want credit for it. They also don't want "mission impossible." Find a balance.

Interestingly enough, we talked about formal mechanisms, beyond the process of target setting. The actual target is hugely impactful to motivation, strong enough to be stretched, strong enough to show it's new and matters. But it can't be so far out that people, the minute they see it, go, "Well, that's not mine." That's crazy. You have to believe you have a chance.

The last one is role modeling. And this one, actually, between the two books, we've learned quite a bit about because I would say that, historically, we've been disproportionately focused on the value of the cascade, the leader, change leaders. They're still all very important. But, increasingly, as we are a workforce comprised of a generation that has a lot of their actions that are digitally based, we've had to come to grips with

the idea that influencers and opinion leaders and people in the social network, their role modeling matters way more.

You still need the formal leader to set out the North Star, but the validation cycles and the encouragement cycles are also coming from these influencers. Being able to know who's in that and who matters, it's a huge deal to generating real role-modeling reinforcement, saying, "Hey, this matters. We're going to do it. And you should do it, too."

Simon London: So those four elements of the influence model—understanding and conviction, reinforcement and formal mechanisms, giving people confidence in the skills that they need, and then the role modeling—if you put those four things together, we think we can address a small number of critical mind-sets. It's doable. It's knowable, how to do it.

Scott Keller: It's important that all of those be done in concert. Let me run the analogy of a soccer game—football, to our international folks—and an opera house. Let's say on Friday night, you go to the opera house. During the best part of the performance, a big crescendo at the end of the opera, what do you do in the audience to show your appreciation? Well, you likely give a genteel clap.

Now let's go to the next night. You're at the soccer finals, and your favorite team's playing. They're now tied, and the time is about up. A fullback steals the ball and makes a fullback run and does this amazing crossover toward the front of the goal. And it's this big header, and it doesn't actually go in because it hits the crossbar. But then it bounces off the back of one of the other team's players, and then it's in the goal, and your team wins. What do you do at the best part of the performance? Probably not a genteel clap. You're going to be jumping up and down, throwing your cup, hugging, high-fiving, whatever. What if you had that behavior in the opera house at the best part of the performance? Well, you'd never do it. Why would you never do it? Because the role modeling is totally different. The story around the cultural

significance of this event is totally different. By the formal mechanisms, you'll get thrown out of the opera.

In this particular example, you probably have the capability and skills to do either one. But employees during change are caught somewhere between a football stadium and an opera house, and it's a totally confusing place to be. The story says football stadium, but the formal reinforcement and the consequences say opera house. The role modeling says opera house, but then the training I'm getting says football stadium. The idea is to work all four together to make it clear: "Hey, on this mind-set and these set of behaviors that relate to it, we're in an opera house now, people."

Bill Schaninger: By social norms, even if you don't have a rule—I mean, in some cases, you have a rule, in some cases you don't have a rule—you've just been told, "We don't do that around here." It's unbelievable how, over generations of employees, that impacts how people behave.

Simon London: It's striking me, there's a common theme here around asking people. How do you find out what mind-sets are? You need to ask people. You need to do structured interviews, laddering techniques, these kind of things. But, ultimately, you need to talk to the people to understand what the people are feeling and how they're thinking. You'd have to do that.

Scott Keller: You do. You have to have an approach, a methodology, an expertise, to not just tell them the time by looking at their watch. What gets exciting is, people could never pick the management practices that typically the predictive analytics will show are the management practices to focus on. People typically are not conscious of the mind-sets that are kind of underlying the culture—or the unlocks. When you elevate these, what you get is this really wonderful feeling in the organization. Bill's felt it, too. It's this, "Finally we've surfaced the real stuff. We're actually having real conversations."

Bill Schaninger: There's one thing I want to add about that because there's a legacy of old human-

dynamics consultation, or even some of the old process consultation. A lot of that would've been divorced from the performance side. We used to do a ton of safety work and reliability work in plants. Sometimes you'd find organizations that had allowed themselves to fall into this idea that cost effectiveness was the enemy of safety and reliability. It's the classic false trap. Sometimes you'd start a conversation and say, "Well, you know, the safest plant is the one that's not running."

Surely we don't mean that. But we might be really saying, "We need a plant that's safe, makes products reliably on spec, and actually has an opportunity to turn a fair margin to justify the capital," because in those places, it's like a couple billion dollars of capital on the ground. We're just trying to get them to handle that we're not willing to sacrifice, but there is an "and." It's not an "either–or."

Simon London: That hints at a failure mode here: that even if an organization and senior management accepts they need to be working on the performance side and the health side, they've got to be working at it together. These aren't two separate workstreams with separate teams that aren't talking to each other. Is that something that we see in practice?

Scott Keller: Yes. It absolutely is. And it's a huge failure mode.

When performance is thought of as, "That's what our business leaders are going to do," and health is, "Hey, can the head of HR sponsor that?," and it's run largely as, "That's the HR stuff, and this is the business stuff," that never ends up going well.

Bill Schaninger: Never works.

Scott Keller: Starts out fine.

Simon London: It's all business.

Scott Keller: It's all business. It's an integrated steering-committee approach, sponsorship approach. Again, nothing against HR—HR has a wonderful role to play in all this. But it's not solely

the domain of HR, nor is performance solely the domain of the CFO, for example.

Bill Schaninger: In fact, now, when we see the setup, the antennae immediately go up, and we go, "No, actually, we'd like you to put a BU [business-unit] leader in there with the head of HR. By the way, we'd like the head of talent to be over in those two performance initiatives because, frankly, you have no idea how your people are going to start doing that."

Scott Keller: In the beginning of these large-scale change programs, there typically is a health team and a performance team working together. By the time you get to that phase three, where you're *architecting* the program, and by the time you get into the *act* stage, for sure, it's actually indistinguishable to the employees who are experiencing this what's performance and what's health.

Those four levers for shifting mind-sets that Bill talked about, you literally would take all of your performance initiatives, and you would ask all of those to build into their plans, "How are you improving our health using these levers to get at those practices and those mind-sets that we need?"

Then it turns out, the work of performance does the work of health for you. Everyone's experiences on how health can actually improve performance are like, "Wow, this actually going really well, and we're getting great results. Who would've thought?"

Simon London: So if you had to think about other failure modes, even for organizations that, on the surface, get that they've got to be working on two sides at once, they've got to be addressing performance and health, what are the things where you see organizations typically will go wrong?

Bill Schaninger: Well, two come to mind for me. One is if you get an economic shock during the period of the effort, and you resort to type—the first time you have to announce a surprise, you know, to the markets. You go, "OK, we're stopping

all this, and we're going just to cost or something else." So you deviate. That would be one. The other, I think, is tolerance of a leader who is just not living up to it. They know where they all are. Everyone knows everything, particularly leaders who aren't really living up to the what we're calling here "health aspiration." They're just not behaving the way that you want them to.

Simon London: Well, and this is the role modeling.

Bill Schaninger: One hundred percent. You will immediately signal, this really isn't that important. There are others, but those two [are critical] to me. The first test is always going to come, and will you carry people who aren't living up to what it means to be a leader in that organization?

Scott Keller: Yeah. I'll just add a couple. First of all, we really hoped, in a way because we thought it would be counterintuitive and kind of push the envelope, that we could say, "Actually, you know, the role modeling of the CEO or the top team is far less important than what we all thought."

It turns out, it's just as important as what we all thought, if not more. We sometimes describe it as the "gear-reduction theory of management," which is, you've got a big gear that can turn one direction, one way, one click, and then a littler gear beneath it—you know, at the next level. It kind of goes three or four clicks, and you go down. The next one's spinning, and you go all the way to the front line. You've got this "bzzz!" just because of one little decision or comment up at the top.

Simon London: Yeah, the signaling.

Scott Keller: Then the CEO or the senior leader kind of decides to go backward one click. Actually, I didn't mean that. So there's shearing beneath it. It's a visual metaphor for the power of senior leadership in organizational life. A senior leader not being onboard is a massive failure mode.

The second failure mode is, to what extent can you make it personal for people, make the change personal? What do we mean by that? Let me give

you an example. If you ask men age 20 to 30, "Are you in the top half of male athletic capability," you know, 93 percent will say, "Yeah. This guy."

That makes sense, actually, because people have a natural self-serving bias to think they're already doing what needs to be done. You want more knowledge sharing, more customer focus, better performance management.

"Scott, how are you going to change?" "Oh, I'll change." But, secretly, I'm like, "I've already got this. It's everyone else's problem. If only they would just change." How do you shift it to, "Hey, for things to change, first, I must change?"

How do I get it to be, "My role needs to be to be even better because I need to role model the ability to change, not just that which we need to change to"? All of the kind of blame mentality or below-the-line mentality for those who are kind of steeped in the language can be let go of. Instead, an above-the-line, fully accountable, "if it is to be, it's up to me" type of mind-set takes over. When that is in place, it's a massive accelerant.

What does it mean to me and the legacy I want to leave? What's my role in creating a trust-based environment versus not? To what extent do I operate below the line or out of blame or out of fear versus above the line, out of passion and opportunity and hope? It sounds super soft, but I'll tell you: super heavy impact.

Simon London: Yeah. I mean, it's adjacent to mind-sets. It's almost like the ultimate existential mind-set that you bring to how you live and how you work.

Bill Schaninger: One hundred percent. If you think about what we're asking of people, in the *aspiration* setting, we're asking them to change

what they might have done on their own, if it was just their own backyard, toward this aspiration for the whole entity. Then we're asking them to ask if, not just assume that, they know why the people around them and their employees are behaving the way they are.

Then on this leadership part, we're saying, "We'd like you to have the humility to acknowledge that, in some ways, you might not be good enough right now. Talk about it. Then have the courage to do something about it." Huge unlock. But it is not by rote, and it's not just a harder and faster version of yesterday's plan.

Scott Keller: The first conversation we often have with CEOs is around this. "Do you have the humility, and do you have the courage, to pull this off?"

That conversation is always a robust and exciting one. Quite frankly, we've walked away from a few situations where it hasn't felt like there's a path there. Those two features at the senior levels in particular are critical.

Simon London: All right. Well, thank you for a fascinating and important conversation, Bill and Scott.

Bill Schaninger: Thank you.

Scott Keller: Thank you. Pleasure to be here.

Simon London: And thanks, as always, to you, our listeners, for tuning in to this episode of the *McKinsey Podcast*. If you want to learn more, please check out the book *Beyond Performance 2.0* or visit us at McKinsey.com.

Scott Keller is a senior partner in McKinsey's Southern California office, and Bill Schaninger is a senior partner in the Philadelphia office. Simon London, a member of McKinsey Publishing, is based in the Silicon Valley office.