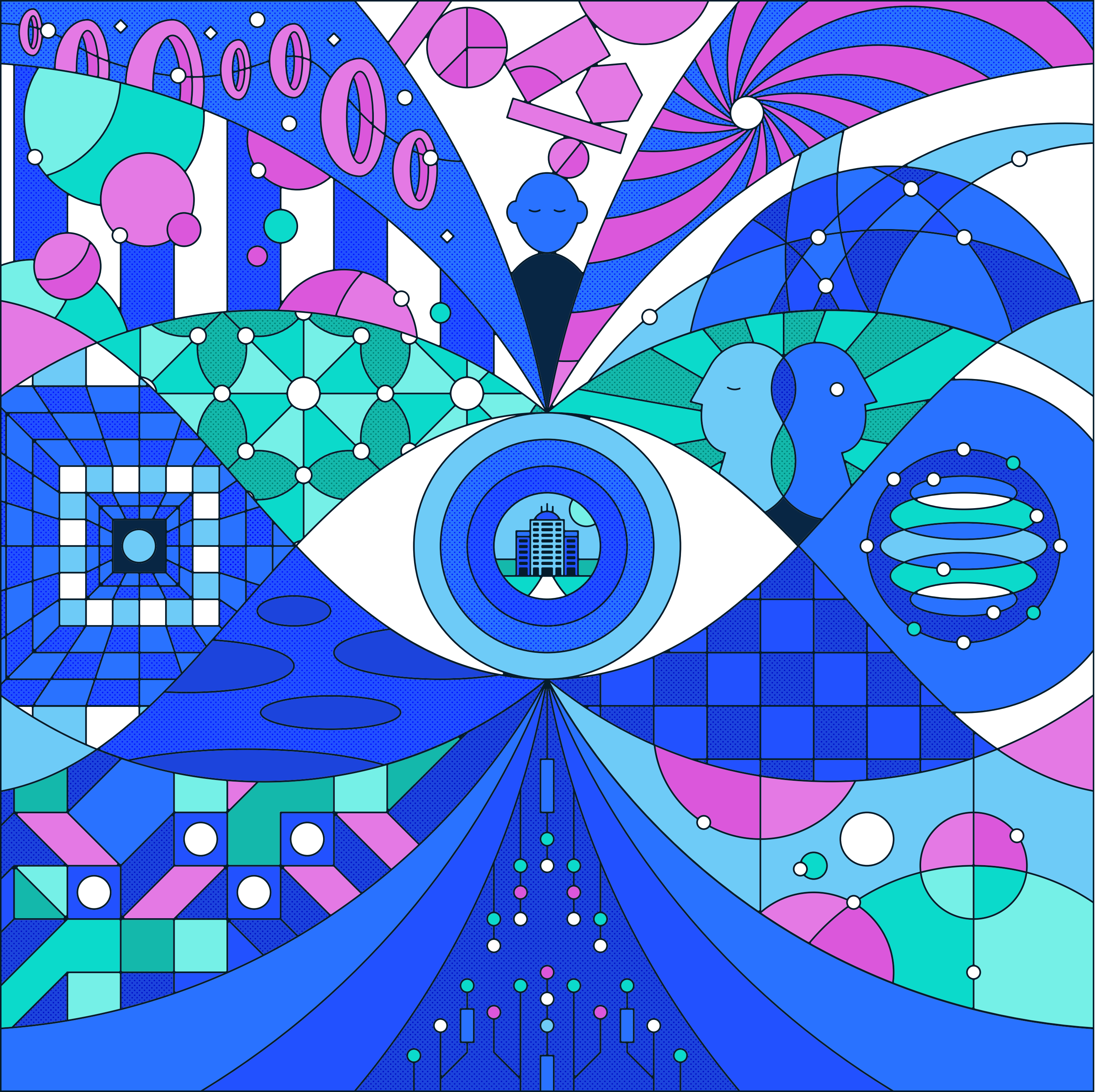


McKinsey & Company

The State of Organizations
2026

Contents

Introduction

Three tectonic forces that are reshaping organizations

These are challenging times for organizations everywhere. Continuous disruption is in the air, with forces ranging from artificial intelligence, economic uncertainty, and geopolitical fragmentation to evolving workforce expectations, increasing customer demands, and tougher competitive dynamics redefining how leaders create value and sustain performance.

This report, the second edition of McKinsey's State of Organizations research initiative, seeks to help leaders better understand these dynamics and address them effectively.

The first edition, published in 2023, kicked off our exploration of the most significant people and organizational shifts, including leadership, resilience, talent and resource allocation, and diversity and inclusion (D&I) strategies. This second edition updates our findings to reflect the evolving needs and priorities of organizations. Postpandemic questions about balancing in-person and remote work as well as attracting and retaining talent have given way to a sharper focus on reestablishing high performance and aligning talent around a few bold strategic priorities and must-win battles.

As with the first edition, this latest research draws on a large-scale survey of leaders around the world. In all, we received responses from more than 10,000 senior executives across 15 countries and 16 industries. While leaders remain focused on driving performance, as in the 2023 report, the emphasis has moved from short-term resilience to sustained productivity and long-term impact, powered by technology and AI at the core of organizational transformation.

The survey responses inform our conviction that three tectonic forces are reshaping organizations and will continue to define their success in the years ahead.

The first force is the infusion of technology as automation and data analytics are joined by the burgeoning of AI, both the large language models underpinning generative AI and the advent of AI agents that can be inserted into company workflows. Collectively, these technologies amount to a paradigm shift that promises significant benefits, including productivity gains, faster speed to market, and cost reductions. They are leading organizations to reimagine how work gets done, redefine domains and end-to-end processes, and rethink traditional structures. To harness AI's potential, organizations need to embrace transformative dynamics, seize emerging opportunities—and test, test, test.

The second tectonic force is characterized by the economic disruptions and geopolitical uncertainty that are intensifying as the world becomes more fragmented. To thrive in this evolving landscape, organizations need to adapt swiftly yet sustainably to cope with increasing complexity and potentially rethink their location strategies.

The third tectonic force stems from workforce shifts. Evolving employee expectations, shifting demographics, and new tech-driven working models are transforming the workforce. To remain competitive, organizations need to transcend traditional structures, redefine leadership, and refocus on performance to navigate ongoing disruption.

Our research suggests that these forces are not temporary fluctuations but deep structural transformations that will test how organizations grow, operate, and lead. They are interdependent: AI could liberate organizations from some of the physical location and geopolitical constraints associated with human workers, but it will raise other dimensions of complexity, including how humans and AI agents will collaborate. Their impact is only beginning to unfold: Technology, particularly AI, will accelerate the reorganization of work and value creation; economic disruptions will keep redefining global resilience and competitiveness; and workforce shifts will challenge leadership models and talent systems in new ways.

This report is organized into three sections that reflect these disruptions. In all, we examine nine organizational themes across the three categories of technological, economic, and workforce shifts.

The survey results highlight some important divisions and dichotomies. Just over half of respondents expect changes in the environment to have at least a somewhat positive impact on their organizations in the next one to two years. Leaders with this positive outlook also see their workforce as being energized. Yet 72 percent of leaders tell us that their organizations are not fully ready to face upcoming changes. Even among leaders who are optimistic, only one-third feel prepared.

Overall, the survey shows that leaders are under pressure to achieve further productivity gains. Their primary metrics now are revenue growth or stabilization, cost reduction, and customer satisfaction, rather than cash flow improvement, speed to market, or employee satisfaction and engagement. They need to ensure sustained performance and long-term resilience, including a flexible operating model and the capability to build for the future.

The big takeaway from our latest report, then, is that in an uncertain world, sustained performance and value creation are the priority, ahead of short-term gains.

While leaders remain focused on driving performance, the emphasis has moved from short-term resilience to sustained productivity and long-term impact, powered by technology and AI at the core of organizational transformation.

The nine most significant shifts transforming organizations today

TECHNOLOGY DISRUPTION

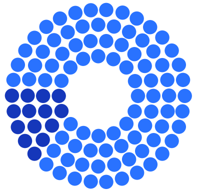
1

Unlocking the AI-enabled organization

The promise of AI-first operating models is vast, but creating these models can be difficult. While 88 percent of organizations are now experimenting with AI, 81 percent do not report any meaningful bottom-line gains.[1] To capture the full value, organizations need to go beyond a piecemeal approach and push for a double transformation, both technical and organizational, that includes reimagining how work gets done across functions and workflows.

86% of leaders feel their organizations are not very prepared to adopt AI in day-to-day operations

86%



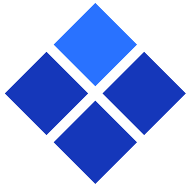
2

Humans and AI agents: Building a new world of collaboration

To work well, AI needs to be much more than a plug-and-play tool. AI agents and human employees need to collaborate. That means redefining capability requirements and building human engagement with the technology. The upside: 55 percent of leaders say successfully building AI capabilities of employees will bring exponential productivity gains.

Only one in four leaders expect that AI agents will act as autonomous teammates to employees in the short term

1 of 4



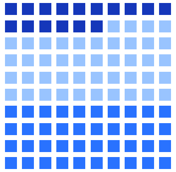
3

Leveraging AI to rewrite the future of shared services

As technology reshapes work, shared-services centers are evolving from transactional process hubs into global business-services centers. AI-first by design, these virtual rather than physical centers will orchestrate work between humans and AI agents, unlocking end-to-end automation and driving innovation and insight at scale. The question for leaders is no longer whether to transform but how fast to pivot.

84% of leaders plan to expand the scope of their shared-services centers within the next 1–2 years, but more than 40% have yet to start systematically adopting the technologies needed

84%



ECONOMIC DISRUPTION

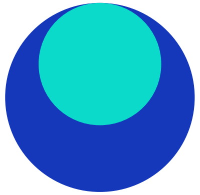
4

Finding value in a new geopolitical context

Almost three in four respondents reported that geopolitical uncertainties have had a notable impact on their organizations. As trade shifts to partners in closer proximity, it's more important than ever to build resilient structures and balance global scale with regional adaptability. Organizations need to develop deep-seated flexibility that enables them to bounce forward. Technology—including digital platforms, data analytics, and AI—can help anticipate risks, reallocate resources, and maintain operational agility.

43% of leaders say they divested assets too late or failed to do so when they should have

43%



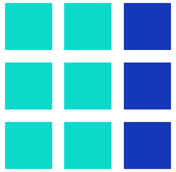
5

From structure to flow: Reaching the next productivity frontier

Breaking through the productivity ceiling has become a top priority for leaders. To do so means shifting attention away from structure and toward how work gets done. The biggest payoff lies in radically simplifying and unifying processes across the enterprise. That means eliminating duplication, synchronizing information flows, streamlining decision routines, and automating where possible.

Two-thirds of leaders think their organizations are overly complex and inefficient, but traditional remedies relying on structural redesigns, cost cuts, and flatter hierarchies are achieving diminishing returns

2 of 3



[1] Hannah Mayer, Lareina Yee, Michael Chui, and Roger Roberts, *Superagency in the workplace: Empowering people to unlock AI's full potential*, McKinsey, January 2025.

The nine most significant shifts transforming organizations today

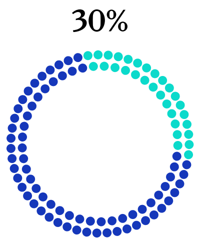
ECONOMIC DISRUPTION

6

Focusing on the core: Doing the right thing with more intensity

To drive growth, organizations need to identify the strategic portfolio and performance moves that deliver outsize impact. This means selecting a few areas in which to excel, building the governance and capabilities to execute on these priorities, and dynamically reallocating budget and talent to fuel them. Value creation depends on allocating assets across the enterprise. Leaders need the vision to innovate, the discipline to prioritize, and the courage to divest.

Only 30% of organizations reallocate resources enterprise-wide



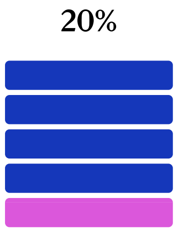
WORKFORCE SHIFTS

7

Aiming higher with a new performance edge

Unleashing the full potential of an organization's human capital by focusing on both people and performance can drive strong business results. While many organizations have set the ambition to improve their performance, less than 25 percent successfully achieve sustained impact. Improving over time requires a focus on distinctive organizational capital, including management practices, systems, culture, and, critically, investing in employee health and well-being.

Leaders are still missing the importance of intrinsic motivators, with only 20% believing nonfinancial rewards can instill performance in employees

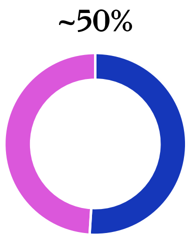


8

Sharpening the focus on diversity and inclusion (D&I)

Four in five organizations are maintaining or expanding their D&I efforts despite the shifting landscape. Organizations continue to report their D&I initiatives as a strategic priority that improves outcomes for business, leads to better performance, and contributes to competitiveness. At the same time, they are sharpening their focus on assessing what is working and refining their approaches to deliver meaningful impact.

Nearly half the organizations that scaled back their D&I efforts expect to bring them back to at least some extent in the next 1–2 years

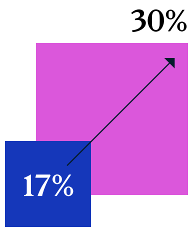


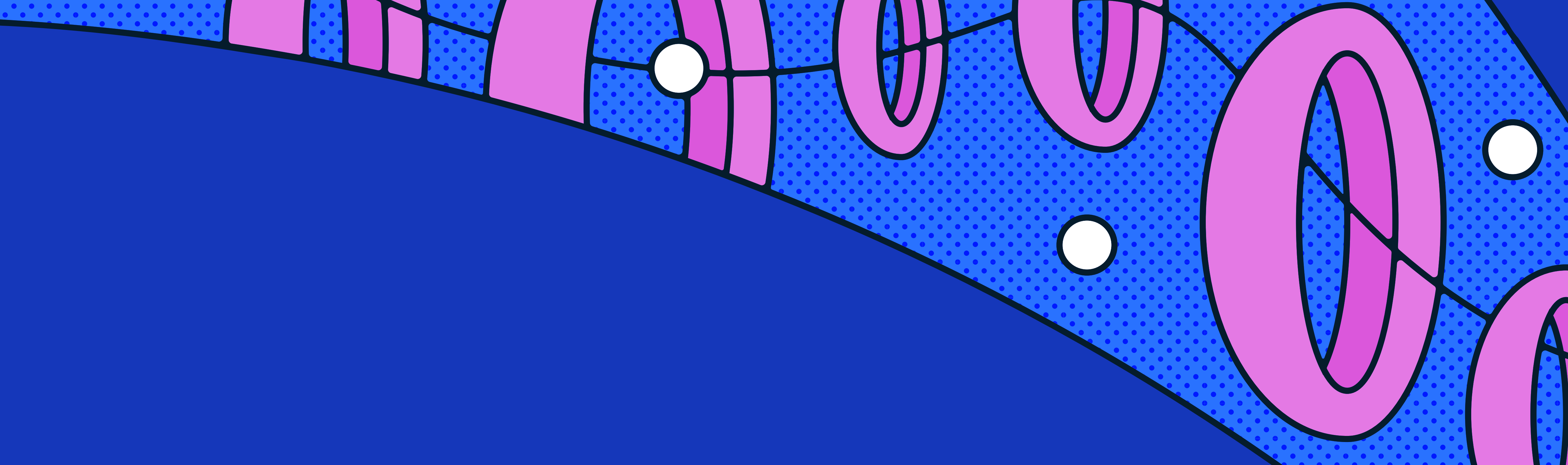
9

Reinventing leadership: Leading from the inside out

As they seek to balance multiple pressures, leaders today need to take an "inside out" approach focusing on personal growth. That's a reflection of the two intertwined dimensions of leadership in this age: the idea that leading others also means leading oneself. AI puts even greater emphasis on the human aspects of work and requires more of leaders. Individuals, teams, and organizations need to redefine leadership in more human-centric terms, with leaders reflecting on the "why" to inspire meaningful change.

30% of reflective leaders believe their organizations can quickly adapt to change, versus only 17 percent of non-reflective leaders





Nine shifts transforming organizations

Unlocking the AI-enabled organization

While the promise of AI-first operating models is vast, creating these models can be tricky: Less than 20 percent of companies that have tried to adopt the technology have seen significant tangible impact on their bottom lines.[1] Organizations need to go beyond a piecemeal approach to adoption and push for a double transformation: both technological and organizational. This approach means reimagining how work gets done across functions and workflows to shift collective performance and capture the full value.

Survey highlights

Eighty-six percent of leaders feel that their organizations are not prepared to adopt AI in day-to-day operations.

One in six organizations have no clear C-level owner for AI adoption.

The top three barriers to AI adoption are concerns about AI itself (46 percent); regulatory, ethical, or legal concerns (44 percent); and organizational challenges, including change management (39 percent).

1 Hannah Mayer, Lareina Yee, Michael Chui, and Roger Roberts, *Superagency in the workplace: Empowering people to unlock AI's full potential*, McKinsey, January 2025.

What’s changing?

Adoption of AI in some form is now widespread; McKinsey research suggests that 88 percent of organizations are deploying AI in at least parts of their organizations. However, just as many report no significant bottom-line impact.[2] In the United States alone, only 1 percent of C-suite respondents describe their generative AI rollouts as mature, and only 19 percent report AI-accelerated revenue increases of more than 5 percent.[3]

Most current efforts to integrate AI focus on fragmented use cases that augment the efficiency of individual contributors. More substantial efforts to embed AI agents to drive productivity in parts of existing processes are either still in the planning stage or being tested in pilot projects. Operational fixes are just the start, however: The future is an AI-enabled operating model design. Enterprise-wide rewiring of companies to become agentic organizations remains a challenge.

Indeed, 86 percent of survey respondents feel that their organizations are not very prepared to adopt AI in day-to-day operations. This is critical considering that one in six organizations we surveyed have no clear C-level owner for AI adoption. Only 14 percent of organizations see leaders consistently championing AI adoption and experimentation with clear strategies and action.

The benefits of getting it right

The winners will be organizations that think big and transform themselves into agentic enterprises by adopting advanced technology across entire business functions and processes.[4] The potential is significant: According to the *McKinsey State of AI 2025* report, organizations that redesign end-to-end workflows and reimagine entire domains such as marketing and operations see the greatest EBIT impact from their use of generative AI.[5] But capturing this value depends as much on people as on technology investments—one executive noted that for every $1 spent on technology, $5 should be spent on people.[6]

AI agents deliver more than efficiency. They supercharge operational agility and unlock new revenue opportunities, bringing resilience, speed, elasticity, personalization, and adaptability to operations. When they coordinate across multiple agents, they can form a team, and in the future, they could potentially even design their own workstreams. One example of agentic AI’s uses comes from a telecommunications company that created a “next best experience” engine. AI models identified when customers might need help or a better offer and then delivered personalized messages through preferred channels. Human outreach was triggered when needed.

> **Most current efforts to integrate AI focus on fragmented use cases that augment the efficiency of individual contributors. More substantial efforts to drive productivity are either still in the planning stage or being tested.**

2 “The state of AI in 2025: Agents, innovation, and transformation,” McKinsey, November 5, 2025.
3 Hannah Mayer, Lareina Yee, Michael Chui, and Roger Roberts, *Superagency in the workplace: Empowering people to unlock AI’s full potential*, McKinsey, January 2025.
4 *Seizing the agentic AI advantage*, QuantumBlack, AI by McKinsey, June 2025.
5 “The state of AI in 2025: Agents, innovation, and transformation,” QuantumBlack, AI by McKinsey, November 5, 2025.
6 Charlotte Relyea, Dana Maor, Sandra Durth, and Jan Bouly, “Gen AI’s next inflection point: From employee experimentation to organizational transformation,” McKinsey, August 7, 2024.

This reduced churn, improved margins, and significantly lifted engagement.

Stakeholders now expect such features. Customers see AI as the new service standard, and employees increasingly expect to experience its benefits in how they work and receive support. Organizations that delay risk falling behind in ways that may be hard to recover from.

Taking these potential benefits into account, leaders in organizations that pioneer AI adoption have a significantly more positive outlook than others that are not as far advanced. Almost two-thirds of these pioneers (64 percent) expect that changes in the broader environment—including in the economy, politics, and consumer sentiment—will have positive impact on their organizations over the next one to two years, compared with 45 percent of non-pioneers. Pioneers are also more than twice as likely to believe that their employees will aim for and achieve more (56 percent versus 26 percent).[7]

In organizations with a clear vision for AI's future impact, nearly 90 percent of leaders actively champion AI adoption, showing that clarity of purpose drives stronger leadership engagement and accelerates transformation.

Issues to address

AI still faces internal resistance despite its potential (Exhibit 1). Our survey suggests that the top barrier involves concerns about AI itself, including issues of bias, intellectual property, and the potential threat it poses to jobs (46 percent). The second top barrier addresses regulatory, ethical, or legal concerns (44 percent). These concerns are slightly higher among EU-based leaders (48 percent), especially in Germany (56 percent), than those in North America (44 percent) and Asia–Pacific (41 percent). Third is organizational challenges, including change management and issues with breaking down silos (39 percent).

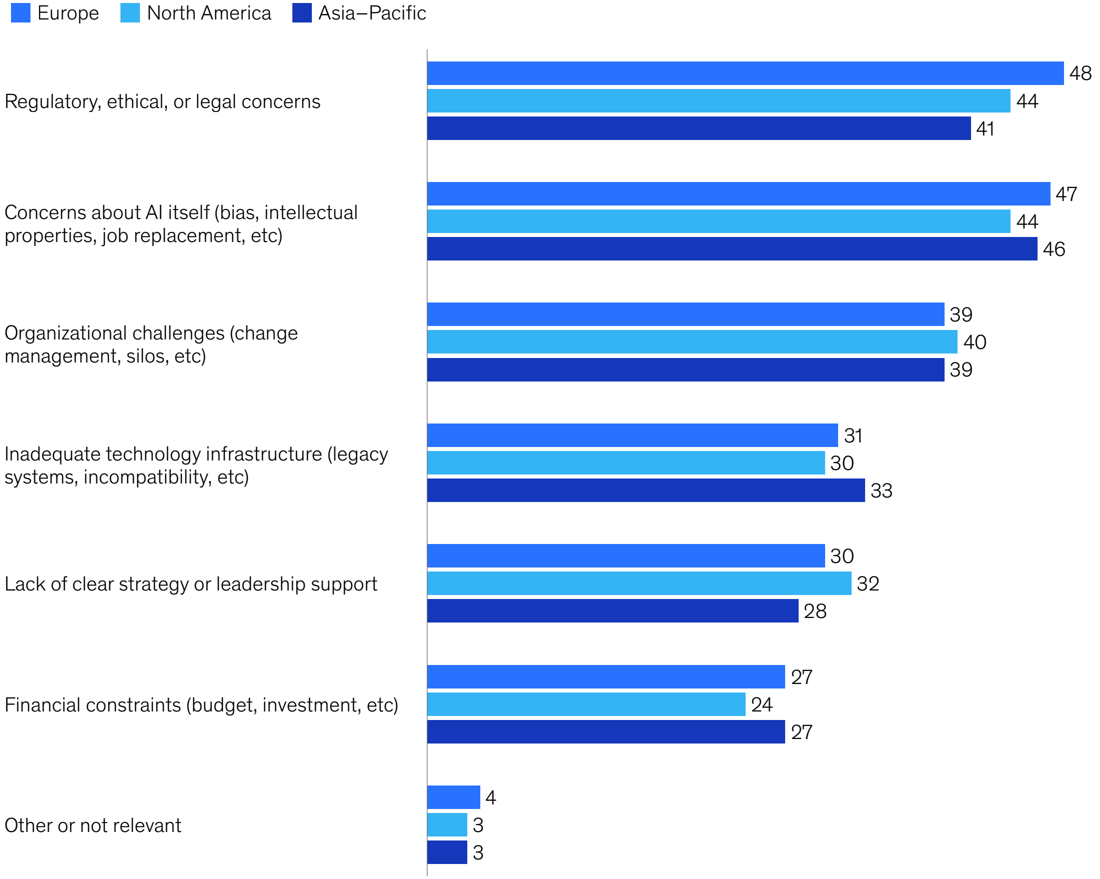
These findings raise questions about how organizations can build a "test, learn, and adapt" mindset and a culture of continuous improvement, and about how leaders redefine roles and responsibilities in a world in which machines can think, orchestrate, decide, and create.

7 Twenty-three percent of leaders in our survey represent organizations that we call AI Pioneers. These organizations have clear understanding of how AI will reshape activities and required capabilities and are rolling out internal and external AI across most departments and functions.

Exhibit 1

Survey respondents cited concerns about AI, ethical concerns, and organizational challenges as top barriers to adopting AI.

Top barriers preventing organizations from adopting AI at scale, % of respondents (n = 3,763)



Note: Respondents were asked to select barriers to adoption of externally developed AI systems or tools in their organizations.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

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To strengthen adoption, leaders need to demystify AI across the organization, manage fears of job replacement, and build trust. Many of today's leaders fail to recognize the importance of ethical and other concerns.

Finding the right formula

How can organizations move from a patchwork of scattered pilots to a more coherent and integrated AI-first model? The goal is to rewire the organization based on new operating models. The journey starts with identifying a few high-impact business domains and then moves to reimagining business strategy, structures, and workflows to redistribute tasks between humans and machines. Four steps along the way are critical.

Build a strategy that recalibrates the business to target true sources of competitive advantage
To realize the full promise of agentic AI, CEOs need to work together with their chief finance, technology, and human resources officers to rethink their approach to AI transformation as a collective C-suite agenda. In our experience, adoption accelerates when chief technology officers lead; organizations with this model scale faster than those where CEOs lead alone.

Build flexible technology platforms to scale AI across the enterprise
Flexible technology infrastructure enables both bought and built AI systems. The next generation of such flexibility lies in the "AI mesh"—what QuantumBlack describes as a composable, vendor-agnostic AI architecture that allows agents to collaborate, share context, and evolve across systems. This architecture provides the connective tissue for scalability and control, enabling organizations to deploy and integrate AI securely as technology continues to advance. While few organizations operate with fully interconnected systems today, many are laying the groundwork. For example, one large bank recently used hybrid "digital factories" for legacy app modernization. Human workers were elevated to supervisory roles, overseeing squads of AI agents. Another retail bank used AI agents to reinvent the process of creating credit-risk memos.[8]

8 *Seizing the agentic AI advantage*, QuantumBlack, AI by McKinsey, June 2025.

Rewire structures and workflows end to end to scale AI

This requires organizations to shift from traditional functions to outcome-oriented operating models that are flatter, faster, and more fluid. Structures need to reflect hybrid capability requirements, creating a balance between humans and AI. Some organizations are already making structural changes in this direction; for example, Moderna announced that it is merging its HR and IT leadership, signaling that AI is becoming a workforce-shaping force.

Empower the workforce so that human accountability and agent speed reinforce one another

This requires redesigning skills, contract structures, and work-time models to enable new ways of working. Executives and senior leaders need to support and mandate, champion AI adoption, and foster a culture of iteration and learning along with cross-functional collaboration. Beyond culture, accountability will also need to be built into rewired workflows—establishing clear ownership for AI outputs, transparent data pipelines, and systematic evaluation of both human and AI agents' performance to monitor accuracy, impact, and decision quality. Asked to cite the top three factors for AI adoption, leaders in our survey pointed to ease of use (42 percent), leadership championing adoption (36 percent), and the presence of a dedicated team to drive adoption (36 percent) (Exhibit 2).

To strengthen adoption, senior leaders need to demystify AI across the organization, manage fears of job replacement, and build trust.[9] Many of today's leaders fail to recognize the importance of ethical and other concerns. In our survey, fewer than one in four leaders (24 percent) cited clear and ethical compliance guidelines as important to enterprise-wide adoption of new technologies. While job replacement is already a reality in some sectors, the broader story is one of occupational transition: As certain tasks are automated, new types of work emerge. Managing this shift—through reskilling, internal mobility, and transparent workforce planning—will determine whether organizations and economies capture AI's full value.

One way to tackle such concerns is to build a responsive risk framework that proactively addresses both technical and ethical challenges. Winning employees' buy-in is another path to accelerating adoption at scale. This can be done by identifying high-impact AI applications to explore and bringing employees along on the value-creating journey, among others. The German insurer Allianz, for example, encourages employees to consider how AI could reduce their workloads by four hours per week, as CHRO Bettina Dietsche explained during our interview.

Exhibit 2

Survey respondents highlighted ease of use, leadership sponsorship, and dedicated teams as key enablers of AI adoption.

Most important factors for AI adoption,
% of respondents (n = 9,346)

Note: Respondents were asked to select the most important elements to facilitate enterprise-wide adoption of new technologies in their organizations.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

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9 Sandra Durth, Bryan Hancock, Dana Maor, and Alex Sukharevsky, "The organization of the future: Enabled by gen AI, driven by people," McKinsey, September 19, 2023.

BETTINA DIETSCHE OF ALLIANZ ON EMBEDDING AI IN THE ORGANIZATION

‘In five years, two-thirds of the skills we need will be completely different. And five years is basically tomorrow.’

The German insurer Allianz has embedded AI across underwriting, claims, and product design. Its generative AI platform, AllianzGPT, has more than 60,000 active users and can complete tasks in minutes that once took hours. Bettina Dietsche, group chief people and culture officer at Allianz, shared her perspective on the organizational implications of AI with McKinsey’s Dana Maor and Patrick Guggenberger.

Bettina Dietsche has worked at Allianz for more than a decade and has served as the chief people and culture officer since November 2022. Her focus is on fostering a flexible and inclusive work environment in line with Allianz’s commitment to its employees’ well-being and a culture of trust, inclusion, and mutual respect. Previous roles at the company, which employs more than 150,000 people worldwide, include chief operating and people officer at Allianz Global Corporate & Specialty. Bettina earned an MBA from the University of Applied Science in Munich, completed several management development programs, and holds a supervisory board certification.

The world around us is changing rapidly. How does that affect you at Allianz?

We are in the midst of a tectonic shift. At a time like this, I think adaptability is the thing that matters most. The speed of change today means that if you fall behind, you don’t necessarily have an opportunity to catch up. We need to be ahead of the wave, which means training and educating our people to feel comfortable using technology instead of being afraid. The biggest game changer is to connect technology with our people, mindsets, and culture. AI is key for us. We want people who bring the analytical rigor of the actuaries of the past, but who can now use AI to interpret vast amounts of data and turn those insights into forward-looking decisions.

Tell us more about Allianz and AI.

This isn’t new territory for us—we began exploring AI back in 2015, focusing on how it could unlock the value of our data. But the arrival of ChatGPT in 2022 changed everything. Suddenly, everyone could use tech to deliver things that previously only the IT department could deliver. We immediately rolled out AI courses for our people. These started out with the basic stuff, like how do you prompt? And ever since, we’ve been rolling out new features virtually every month.

People were comfortable using ChatGPT and the other gen AI apps at home. But as soon as you bring it into a business context, they take a step back and ask, “Does this mean my job will go away?” I understand the sentiment, but it’s completely wrong. We know that AI will augment people’s jobs. So last year we positioned this in a new way, asking everyone to think about, “How can I use AI to reduce my workload by at least four hours a week?” It’s a nicer way to approach this, because everyone’s got those four hours a week when they’re doing boring stuff that doesn’t add value. It allows everyone to think about how this can improve and enrich their work life.

On the other hand, we must also be honest with ourselves. I think it is quite clear to everyone that certain roles at Allianz—and at other companies too, of course—will change significantly, with some job profiles being completely automated or phased out. We are addressing this proactively through strategic workforce planning and by managing all talent segments with care. This makes it even more important for us to focus on upskilling and reskilling our people so that we are all well prepared for the future and can continue to thrive as our organization evolves.

This is also one of the reasons why we're focusing more and more on adoption. You only get widespread adoption if people feel that they can trust AI. Can they trust that our data will be secure? We're very focused on that. And the nice thing is that adoption is measurable. For instance, how many more products have we designed with AI? How many job postings have AI as the key criteria for hiring? You can measure this, and that's the key to seeing that AI gets embedded as a normal thing across the organization. Getting widespread adoption is a key to moving from productivity alone to innovation.

In our research, we've found that fostering trust comes up repeatedly as a key enabler for AI. How have you built up trust at Allianz?

This is foundational for us. You have to trust that the results you get are based on good data. We have created an ethics board, and the ethical discussion is fascinating. How far do you want to let AI go in terms of decision-making? When and how does a person need to be involved?

In People and Culture, we rolled out an AI solution that does skill matching for recruiting. It saves an enormous amount of time and does a good job of matching skills to any job. But the final decision is made by a person. Does that person make the better decision? Maybe; maybe not. People have biases—they might focus on how someone fits with their team culturally. That's very human. You really must think about the decision rights of the machine versus the human.

These are complex issues, and we've set a lot of governance around this. But we ask our people about this directly. People want to see that we are taking their fears seriously and that we really follow up on their concerns. To me, this has more credibility than simply telling them that we have an ethics board.

How is AI affecting your strategic workforce planning?

Just this morning I had a session on this topic with my team. We were asking ourselves questions like: What profiles do we need in the future? What's the supply and demand? Which business segments will have complete revolutions thanks to AI, and which are more complex?

I worry about every segment because none will stay just as they are. If I look at the skills of today's actuary or finance type—or even in my own function—the skills I'm hiring for now are completely different than a few years back. If you hire based on the qualifications that mattered in the past, you will not get what you need for the future.

In five years, two-thirds of the skills we need will be completely different. And five years is basically tomorrow.

You mentioned that some employees worry AI could make their jobs obsolete. How do you inspire a genuine passion for learning when that fear exists?

Excitement comes with people seeing that we invest in them, in the learning they need for the future. We enable everyone to invest at least 43 hours in learning every year. I am very proud that in 2024, our people took advantage of this opportunity, investing an average of 60 hours in learning. We want all our people to be resilient, performance-oriented, and more adaptive. It's not just standard learning. We want learning to be a cool thing that makes you better and makes you proud. We want people to feel that they can grow here. From an employer perspective, that also helps you create a great brand.

I keep saying to people, you can be the CEO of your own career here. Learn for yourself, not for anyone else. You'll stay relevant if you embed this idea into your learning.

As AI becomes more embedded across the organization, where does accountability sit? Who ultimately owns it at Allianz?

I think everyone owns AI. I really mean it. This is part of owning their own destiny. And then obviously the technology team needs to own it, ensuring that we have the best technological tools and that we're secure from cyberattacks. And every team leader needs to own it, to make sure that the team is best equipped with the necessary ability.

What is the role for leaders?

You can only be a role model if you live and breathe and do this yourself. You cannot sit in a boardroom preaching about how important this is and not know how to use it yourself. Sometimes top leaders forget that people watch you. And if they see that you're not walking the talk, don't expect them to follow you.

Humans and AI agents: Building a new world of collaboration

As organizations move to an AI-enabled model, they will need more than the right structure—they will need collaboration between AI agents and human employees. That means redefining capability requirements and building human engagement with technology to support the emergence of a new collaborative hybrid. While most human skills will endure, they will be applied differently.

Survey highlights

Fifty-five percent of leaders say successfully building AI capabilities of employees will bring exponential productivity, 48 percent say it will improve access to information, 47 percent expect it to reduce administrative work, and 46 percent say it will improve the effectiveness of decision-making.

Yet 53 percent expect AI to serve mainly as a support tool in the next one to two years, and only 25 percent expect it to take on agentic roles and act as autonomous teammates to employees in the short term.

Younger leaders have more clarity about agentic AI's impact than their older peers and are more optimistic about how quickly it will take effect.

One in ten leaders think their employees may miss out on AI's productivity opportunity and experience no meaningful increase in output.

What's changing?

While it's possible to plug AI agents into existing workflows, reaping the full potential of the technology calls for reimagining those workflows from the ground up, with agents at the core. Work will need to be redesigned around collaboration between humans and agents. But agents should not sit at the center of every workflow; they still lack many human capabilities and require oversight, among other limitations. The opportunity lies in decomposing processes into the discrete activities that need to be done and making conscious decisions—based on economics, ethics, and technology maturity—about what humans do, what AI agents do, and how the two collaborate toward a shared outcome.

"Agentic AI" refers to AI systems that can pursue multistep, adaptive goals with limited human oversight. They are capable of planning, executing, and adjusting to a variety of situations that previously required human judgment and coordination. Unlike earlier AI waves focused on single, deterministic tasks, agentic systems can extend automation into activities that previously required the flexibility expected of a human worker.[10]

In part, this change reflects the evolution of AI. Generative AI tools such as chatbots and copilots often operate horizontally, supporting a broad range of functions across the enterprise, while agentic AI tends to be vertical, participating in full end-to-end workflows within specific domains. In practice, the two paradigms increasingly converge, with organizations blending generative and agentic capabilities to scale impact. New human roles are emerging to make this work. They include trust and safety leads and AI product owners. A workforce overhaul is called for—one that will build cross-functional "fusion" teams that include people with tech, data, and HR expertise as well as business experience.

For all their potency, AI agents don't have all the answers. Organizations need to maintain critical human skills, including emotional intelligence combined with technical skills.

The human capabilities required in an AI-hybrid world are also changing. McKinsey research has found that more than 70 percent of the skills sought by employers today are used in both automatable and non-automatable work. This overlap means that most skills remain relevant, but how and where they are used will evolve. The demand for AI fluency—the ability to use and manage AI tools—has grown sevenfold in two years, faster than for any other skill in US job postings.[11] Organizations will need to ask their people to work differently to capture the value potential. There is growing demand for the measurable technical ability to develop, deploy, and maintain AI systems.

Global demand for applied AI talent more than tripled between 2018 and 2025, with skills such as natural language processing, data science, and PyTorch particularly sought after.[12] Recent McKinsey research on the agentic organization finds that as AI becomes embedded across workflows, around 75 percent of current roles will need reshaping with new skill mixes that combine greater technological fluency with stronger social, emotional, and higher-cognitive capabilities.[13]

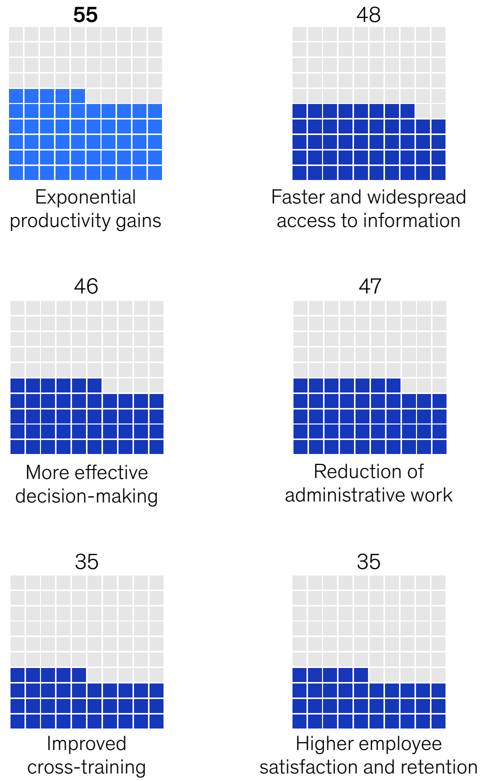
All employees will need to acquire soft technical skills as AI adoption increases. McKinsey research suggests that employers will need to find new ways to deploy staff. For example, in cases where entire roles have been eliminated by generative AI, 54 percent of leaders upskilled, reskilled, or redeployed the affected employees, and only one in five eliminated the role entirely.[14] Such data underscores a truism for this new era: For all their potency, AI agents don't have all the answers. Organizations need to maintain critical human skills, including emotional intelligence combined with technical skills.

10 Lareina Yee, Michael Chui, Roger Roberts, and Stephen Xu, "One year of agentic AI: Six lessons from the people doing the work," QuantumBlack, AI by McKinsey, September 12, 2025.
11 "Agents, robots, and us: Skill partnerships in the age of AI," McKinsey Global Institute, November 25, 2025.
12 Lareina Yee, Michael Chui, Roger Roberts, and Sven Smit, *Technology Trends Outlook 2025*, McKinsey, July 2025.
13 "The agentic organization: Contours of the next paradigm for the AI era," McKinsey, September 26, 2025.
14 "How to lead yourself and others in the new era of work," McKinsey, August 17, 2025.

Exhibit 3

A majority of survey respondents agreed that AI capabilities will bring exponential productivity gains.

Organizations' desired outcomes of developing an AI-savvy workforce,
% of respondents (n = 7,904)



Note: Respondents were asked to identify their desired outcomes in developing an AI-savvy workforce.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

McKinsey & Company

Benefits of getting it right

Leaders see multiple and significant benefits from successfully developing an AI-savvy workforce. Fifty-five percent of survey respondents say having AI capabilities will bring exponential productivity gains, 48 percent say it will improve access to information, 47 percent say it will reduce administrative work, and 46 percent say it will improve the effectiveness of decision-making (Exhibit 3).

AI-augmented teams drive not only productivity but also innovation and focus. Automating routine and administrative tasks frees employees to concentrate on high-value strategic initiatives, creative problem-solving, and opportunity exploration. By scaling economically and continuously, agentic AI enables organizations to address previously untapped long-tail opportunities—tasks and insights that were historically uneconomical for humans to pursue because the input-to-output ratio was not viable.

Agentic AI delivers faster cycle times and cost savings as agents execute multistep processes end to end, but its deeper benefit lies in enabling continuous experimentation and learning across functions. Some industries are already ahead of others. The professional-services and technology, media, and telecommunications (TMT) sectors report the highest concentration of efforts in developing an AI-savvy workforce to achieve exponential productivity gains (64 percent and 62 percent, respectively), compared with the 53 percent average of all other industries.

The survey suggests that AI's ability to reduce administrative work is less of a priority for millennial leaders than the exponential productivity gains that AI promises, along with higher employee satisfaction and retention. In contrast, Gen X and baby boom leaders put more emphasis on using AI to reduce administrative work.

Beyond operational gains, leaders increasingly view agentic AI as a catalyst for innovation—creating the capacity to test, learn, and scale ideas that were previously out of reach. For example, in pharma, integration of AI agents with workflows in research and early drug discovery drove a 21 to 30 percent improvement in wet lab capacity at one company, accelerating the progress of candidate drugs to trials.[15] A property and casualty insurer integrated interactive visual user interface elements—such as bounding boxes, highlights, and auto-scrolling—into AI-assisted claims-review workflows. The company achieved about 95 percent user acceptance, significantly improving claims reviewer confidence.[16]

15 "Reimagining life science enterprises with agentic AI," McKinsey, September 8, 2025.
16 Lareina Yee, Michael Chui, Roger Roberts, and Stephen Xu, "One year of agentic AI: Six lessons from the people doing the work," QuantumBlack, AI by McKinsey, September 12, 2025.

Issues to address

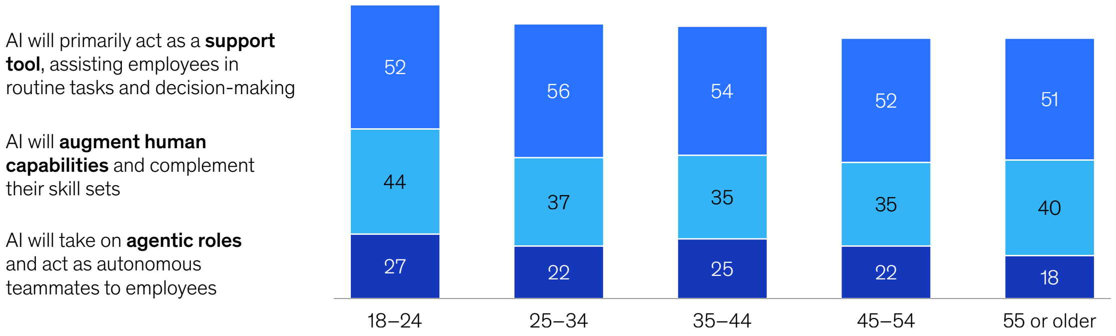
A gap is opening between longer-term expectations of the transformative role of agentic AI and the more modest role it may play in the next one to two years. Just over half of surveyed leaders (53 percent) expect AI to serve in the near term mainly as a support tool for people, helping them on routine tasks and with basic decision-making.

Only about one in four expect AI to take on agentic roles in the next year or two and act as autonomous teammates to employees, although there is a generational divide: Exhibit 4 highlights that younger leaders are more optimistic about the time it will take to introduce agentic AI (27 percent) than leaders aged 55 and up (19 percent).

Exhibit 4

Respondents expect AI to act mainly as a support tool in the near term; younger leaders are more optimistic about autonomous roles.

How leaders expect AI to change their workforce within the next 1–2 years by age,
% of respondents (n = 9,346)



Note: Respondents were asked how they expect AI to change their workforce within the next 1–2 years. Respondents could select more than one option.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

McKinsey & Company

These somewhat muted short-term ambitions may stem from caution, doubt, or a lack of understanding among leaders about how AI can reshape capabilities and activities in their organization in the next one to two years. Younger respondents—those between age 18 and 24 (27 percent of the total sample)—and those in advanced industries (25 percent) say they have clarity about AI's impact. But respondents who are older than 55 or in public sector–adjacent fields lag behind.

For example, when employees' time is freed by AI, only 30 percent of leaders see employees using that time for higher-value tasks like critical thinking and creativity, while just 13 percent believe employees are able to do more tasks at the same time. One in ten leaders even see their employees missing out on productivity opportunity and thereby experiencing no meaningful increase in output.

Achieving the productivity gains that are among the most compelling promises of AI requires challenging and redesigning the operating model of individuals and teams, rewiring end to end, and building capabilities quickly and at scale. However, that is not currently happening in all organizations. In part, this stems from a global shortage of advanced AI skills, including edge computing, big data, and machine learning, as there is only half the talent available with the requisite skills needed to fill the demand.[17] Required skills will vary based on the activities being performed, with deep specialists needing extensive domain knowledge, while AI-empowered frontline workers focus on relationship building and interpersonal tasks.

Beyond the technical challenge lies the organizational one: reshaping roles and managing change at enterprise scale. Many organizations are still "running after the wave"—focusing on initial takeouts and short-term productivity—rather than "getting ahead of the wave" by investing in workforce transformation for the next generation of domains, in which human–agent collaboration will be the only way to capture full value. The ability to reskill at speed and manage change inclusively will determine which organizations translate experimentation into sustainable advantage.

17 Lareina Yee, Michael Chui, Roger Roberts, and Sven Smit, *Technology Trends Outlook 2025*, McKinsey, July 2025.

Finding the right formula

Given the pace at which AI technology is evolving, organizations need to be ready to incorporate the latest tools in a timely fashion and put in place the latest systems for hybrid collaboration. We see three priorities:

Ensure that AI adoption drives clear business value
Organizations will need to make frequent assessments of the impact of AI tools on an ever-growing range of workflows and tasks. For example, they will need to track how well AI agents that act as teammates with human employees actually complement employees' capabilities.

Making these assessments will require more dynamic and more frequent scenario planning that simulates various degrees of technological involvement and capability needs. These will allow for greater flexibility and accelerated capability building, including leveraging AI for customized upskilling of employees. Today, most organizations still conduct strategic workforce planning only every two to three years (39 percent of respondents) or on a yearly basis (39 percent). Only a few (14 percent, most of them in sectors such as TMT) have put in place more flexible planning.

Select the right leaders to drive AI adoption
What's needed here are business leaders who can champion AI adoption, translate tools into impact, and make decisions that align technology with organizational priorities. To build AI fluency at all relevant levels, organizations need to plan workforce development to attract and retain the right talent—individuals who can work well with technology in hybrid collaboration. Successful organizations will foster this hybrid talent internally, attract it externally, and build peer-learning networks that integrate technical and business expertise. They will also upskill their entire workforces on soft skills, including prompting AI tools, interpreting outputs, critical thinking, problem-solving, and collaboration on AI-augmented workflows.

Roles will change. For example, managers freed from administrative tasks by the technology will be able to focus more on people management, while the edge for talent will lie with those who combine deep domain expertise with fluency in guiding agentic systems.[18] Every employee needs to understand and operate AI applications relevant to their field. Walmart, for one, has announced plans to maintain its workforce size even as every job changes, with employees taking on fundamentally new responsibilities that blend human expertise with AI-driven tools and development skills.[19]

Create infrastructure to measure, encourage, and track progress
Organizations need strong sensing mechanisms that can monitor how well their AI transformation is progressing. This will not only propel skill building but also track progress and adoption, areas of resistance, and employees emerging as champions.

To build this sensing mechanism entails aligning metrics, incentives, and workforce development plans with business outcomes to ensure AI investments translate into tangible value. But the right formula for success goes beyond measurement—it requires embedding a change muscle across the enterprise. As our work on innovation at scale shows, organizations that repeatedly transform do so by institutionalizing experimentation, celebrating early wins, and building a culture of learning that treats change as a continuous capability, not a one-off project.[20]

Looking ahead, scenario-based workforce transformation will be a must-do to stay ahead of the wave. The organizations that thrive will be those that move from reacting to technology to shaping it—regularly stress-testing their operating models, leadership roles, and talent pipelines against alternative futures. Building this enterprise-wide foresight will allow them to anticipate capability needs, accelerate reskilling, and sustain momentum as hybrid collaboration between humans and AI deepens.

18 *People & Organization Blog*, "Rethink management and talent for agentic AI," blog entry by Sandra Durth, Bryan Hancock, Dana Maor, and Sophie Underwood, McKinsey, November 3, 2025.
19 Tom Huddleston Jr., "Walmart CEO: 'AI is literally going to change every job'—how the best employees can still stand out," CNBC, September 29, 2025.
20 Jordan Bar Am, Laura Furstenthal, Felicitas Jorge, and Erik Roth, "Innovation in a crisis: Why it is more critical than ever," McKinsey, June 17, 2020.

LORENA DELLAGIOVANNA OF HITACHI ON PREPARING FOR THE NEW WORLD OF COLLABORATION THAT AI REQUIRES

‘Ultimately, scaling AI is a leadership challenge as much as a technical one, requiring sustained commitment to skills, trust, and execution discipline.’

Japan’s Hitachi is embracing AI as a key enabler of sustainable growth and societal value. Over the next one to two years, the company expects AI to reshape tasks and processes while increasing the importance of human judgment and skills. Lorena Dellagiovanna, Hitachi’s chief sustainability and HR officer, outlined how AI is already delivering value and how the organization is preparing its workforce to operate in tandem with the new technology.

Lorena Dellagiovanna is Hitachi’s senior vice president and executive officer and chief human resources and sustainability officer, leading the integration of people and sustainability strategy as core drivers of Hitachi’s business performance and long-term value creation. In her role, Dellagiovanna advances Hitachi’s sustainability agenda by embedding environmental and social priorities into business operations and decision-making while also overseeing the human capital agenda, recognizing people as a central driver for innovation and security. She serves on the boards of several Hitachi Group companies and has held senior leadership roles across Europe.

How will AI reshape roles, activities, and required capabilities over the next one to two years in your organization?

AI is already embedded across Hitachi at multiple levels, from individual productivity and internal operations to core business activities, with a clear focus on areas where it delivers tangible value. Where AI capabilities are in place, we are seeing early but tangible results. Internally, teams are making decisions faster and with greater consistency while reducing manual effort in routine activities. This allows employees to focus more on judgment, problem-solving, and value creation.

In practical terms, we see three near-term shifts. First, repetitive and data-intensive tasks are increasingly automated or supported by AI. Second, decision-making in areas such as engineering, operations, and maintenance is being augmented by real-time insights. Third, the importance of human capabilities such as judgment, system thinking, and problem-solving is increasing.

For example, engineers are spending less time on manual analysis and more time on design optimization and decision-making. Operators are using AI-supported insights to improve safety, quality, and uptime. Managers are expected to lead teams that work alongside AI tools, which requires stronger data literacy and new leadership capabilities.

How does your workforce planning anticipate these changes?

We combine workforce data with deep business and operational knowledge. As a concrete step, we leverage our digital capabilities as a skills analyzer to estimate how AI may affect roles, tasks, and skill requirements. This approach helps us identify where work is likely to be automated, augmented, or redesigned; where reskilling efforts should be prioritized; and how to progressively scale this process across the group.

At the same time, we are careful not to overstate predictability. AI technologies and use cases are evolving rapidly, so we treat these analyses as directional rather than definitive. Workforce planning is therefore a continuous process, refined through feedback from the business and real-world outcomes.

Across all of this, our guiding principle remains clear: AI must amplify human potential and support responsible decision-making.

How has your organization approached upskilling employees to ensure they are prepared to work effectively with AI?

Our core belief is that technology creates value only when people trust and understand it. For this reason, AI upskilling is delivered as a continuous journey, rather than a one-time training initiative.

We start by building AI awareness across the entire workforce, ensuring that everyone is engaged at an appropriate level. This includes helping employees understand what AI can and cannot do, how to use it responsibly, and how to manage risks such as bias, data misuse, and overreliance. This shared foundation is essential to building trust and enabling effective collaboration between people and AI.

In parallel, we are making a clear and measurable commitment to develop deeper skills and AI capabilities for specific roles. A concrete example is our commitment to develop 50,000 generative AI professionals by fiscal year 2027, with a global scope. These are employees who apply generative AI in business and operational contexts, supported through structured learning and partnerships with technology providers, to translate AI potential into real business impact. These efforts build on existing digital capability development and are integrated into our broader talent and workforce strategy.

Importantly, we increasingly embed AI into the systems and tools employees already use. This allows people to learn through daily work and practical application, rather than relying only on formal training programs. We believe this learning-by-doing approach is critical to sustainable upskilling.

What strategies has your organization used to attract and retain top AI talent?

We are very intentional about balancing external hiring with internal capability-building. We selectively recruit for critical AI while investing heavily in upskilling internal talent who bring deep domain and business knowledge. This combination is essential to ensure AI is applied responsibly and effectively in complex, real-world environments.

Partnerships also play an important role. Rather than building everything in-house, we collaborate with technology partners to accelerate innovation while applying AI internally first and focusing our capabilities on areas where it creates the greatest value for the business and our customers. This "Customer Zero" approach allows AI talent to work on complex industrial and societal challenges, where technology, domain expertise, and real-world impact come together.

What advice would you give to other organizations looking to redefine productivity and innovation at scale through AI adoption?

Our experience shows that AI delivers value when it is clearly linked to strategic goals and business outcomes. The first step is to define a clear AI vision and strategy that is adopted at every level of the organization and to communicate it transparently from day one. Employees need to understand why AI matters, how it connects to business priorities, and what it means for their work. Early and consistent engagement is critical to building trust and momentum.

The strategy should then be translated into specific use cases aligned to the business priorities, rather than deploying AI broadly without focus. Governance and accountability need to be defined early so people understand how AI is used and where responsibility remains with people.

Equally important is integration. AI creates impact when it is embedded into core systems, processes, and everyday ways of working, supported by clear capability building through HR. Ultimately, scaling AI is a leadership challenge as much as a technical one, requiring sustained commitment to skills, trust, and execution discipline.

Has the rise of AI influenced Hitachi’s diversity strategy?

Over the past year, we have strengthened our Diverse Perspectives strategy by embedding it more directly into our business and sustainability agenda, in line with our new management plan, Inspire 2027. Our focus has shifted from awareness-based initiatives to systemic integration across leadership, governance, and talent processes that support execution and long-term value creation.

From an HR perspective, this includes actions such as embedding inclusive leadership competencies into leadership development and succession planning and reinforcing governance structures to ensure accountability and consistency across regions.

The acceleration of AI has reinforced the importance of a human-centric approach. We see diverse perspectives as a practical enabler of better decision-making and innovation, particularly in AI-supported environments. Different experiences and ways of thinking help identify risks, improve problem-solving, and strengthen the quality of AI-driven outcomes.

In practice, this includes integrating AI-related learning into global training programs and applying principles of fairness, consistency, and human oversight in AI-supported talent and workforce processes.

> **‘Our experience shows that AI delivers value when it is clearly linked to strategic goals and business outcomes. The first step is to define a clear AI vision and strategy that is adopted at every level of the organization.’**
>
> LORENA DELLAGIOVANNA

Leveraging AI to rewrite the future of shared services

As technology reshapes work, shared-services centers are evolving from transactional process hubs into global business-services centers. AI-first by design, these virtual centers will orchestrate work between humans and AI agents, unlocking end-to-end automation and propelling innovation and insight at scale. This transformation will redefine the role of corporate functions as centers of value creation that shape how organizations operate. The question for leaders is no longer whether to transform but how fast to pivot toward AI-native models that future-proof their organizations.

Survey highlights

- Eighty-four percent of respondents are planning to expand the scope of their shared-services centers within the next one to two years.
- Only 6 percent of business service leaders are realizing the full benefits of technologies across multiple use cases, and more than 40 percent have yet to start systematic adoption.
- Integration with existing systems (42 percent) and resistance to change (41 percent) are seen as the biggest barriers to scaling AI-native global business services.

What's changing?

The traditional shared-services-center (SSC) model, built around process efficiency and cost reduction, has reached its limits. As AI-augmented workforces emerge, organizations face the challenge of turning their shared services into AI-native global business-services centers (GBSs) that serve as strategic partners and innovation hubs.

Next-generation GBS models don't simply provide a new level of automated processes; they rethink workflows, roles, and governance to integrate AI and automation. They can also be virtual rather than physical. The transformation often starts with generative AI enhancing automation, leading to AI-enabled process redesign in which AI agents run full end-to-end processes. The goal is a "no touch" model in which human oversight focuses on steering technology, interfacing between people and AI, and orchestrating value creation.

Fast movers are already scaling AI-native models. Followers are modernizing SSCs into integrated GBSs and looking to automate processes and add analytical and innovation-focused work. Laggards risk being left behind if they rely on outdated "lift and shift" approaches focused purely on relocation and cost reduction. The GBS of the future focuses more on lifting, centralizing, and redesigning.

Today, shared services still focus primarily on operational tasks (56 percent) and administrative tasks (49 percent), with fewer focusing on analytical (41 percent) or strategic tasks (26 percent). Exhibit 5 shows that 84 percent of organizations plan to expand the scope of these centers within two years—especially into innovation or transformation (30 percent) and analytics (27 percent). Motivations differ: Leaders focused on efficiency (62 percent) aim to expand shared services to reduce costs, whereas growth-focused leaders (54 percent) prioritize scalability and technology adoption.

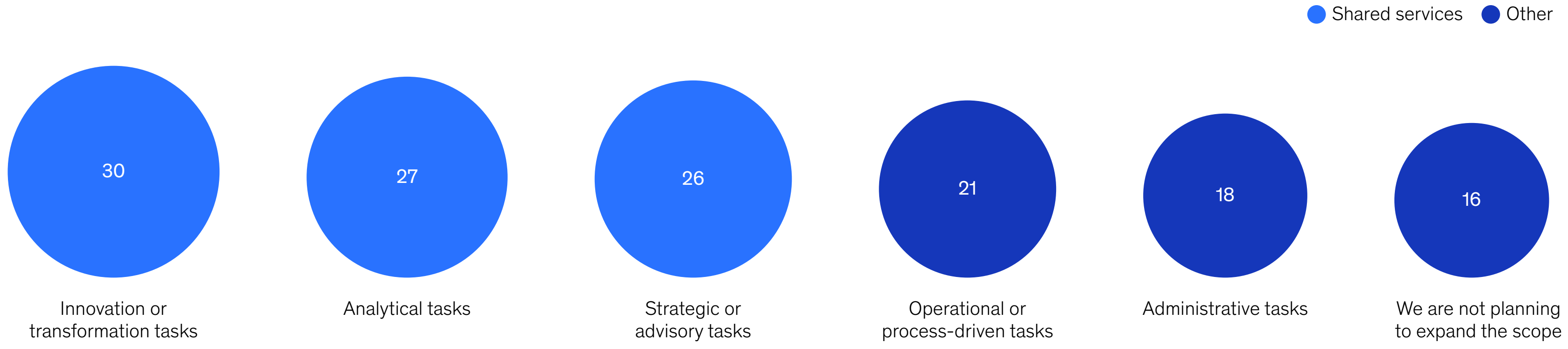
Traditional lift-and-shift models still bring near-term savings in labor costs, but the savings plateau quickly. Adding greater automation can deliver more sustainable efficiency and quality improvements, combining migration with digitalization. The most successful organizations sequence both, securing cost savings now while planning automation maturity over one to two years.

The next step is a broader redesign. Organizations automate first, redesigning end-to-end processes to leverage AI and cloud-based workflows before centralizing, regardless of the physical location. Automate-and-centralize models skip unnecessary lift phases, enabling digital processes to be standardized, scaled, and operated seamlessly across locations. They deliver more sustainable efficiency and quality improvements, combining migration with redesign and digitalization.

Exhibit 5

Within the next one to two years, many organizations plan to expand the scope of their shared services.

Types of tasks organizations are planning to add to the scope of their shared-service operations within the next 1–2 years, % of respondents (n = 8,175)



Note: Figures may not sum, because of rounding. Respondents were asked to select the types of tasks their organizations are planning to add to the scope of their shared-service operations within the next 1–2 years. Respondents could select more than one option.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

McKinsey & Company

Next-generation global business service models don't simply provide a new level of automated processes. They rethink workflows, roles, and governance to integrate AI and automation. They can also be virtual rather than physical.

Benefits of getting it right

Breaking down functional silos and integrating shared services into GBS units enables organizations to optimize processes end to end along metrics tracking efficiency, effectiveness, and customer or user experience. Our research suggests that next-generation GBS will be the lighthouse of AI value creation in a number of ways:

Propelling efficiency and effectiveness at scale. Shifting from shared services to AI-native GBS delivers an additional 20 percent increase in cost effectiveness, our research suggests.

Liberation from geographic constraints. Organizations will be able to sidestep geopolitical risks and the pain of physical relocation while accelerating delivery.

Innovating and delivering expertise-led services. AI-native GBS centers deliver a 40-fold increase in access to innovations and a 50 percent productivity improvement through increased operational excellence and resilience, according to our research.

Enhancing the experience of users and customers. AI-native GBS delivers a 20 percent improvement in customer experience (such as customer satisfaction scores) relative to traditional shared services activities.

Enhancing resilience. Global centers with distributed footprints hedge against geopolitical risk, supply chain volatility, and local disruptions.

Accelerating innovation. GBS centers are becoming incubators for AI pilots, process innovation, and digital-product development.

Issues to address

Only 6 percent of GBS leaders in our survey report realizing full value from advanced technologies across multiple use cases, while more than 40 percent have yet to start systematic adoption. Leaders say the largest barriers to scaling AI-native GBS are integration with legacy systems (42 percent) and organizational resistance (41 percent) (Exhibit 6).

Many organizations struggle with fragmented processes, unclear ownership, and limited funding for transformation. Without sustained investment and C-suite sponsorship, the GBS function risks plateauing as a cost center rather than becoming a strategic partner.

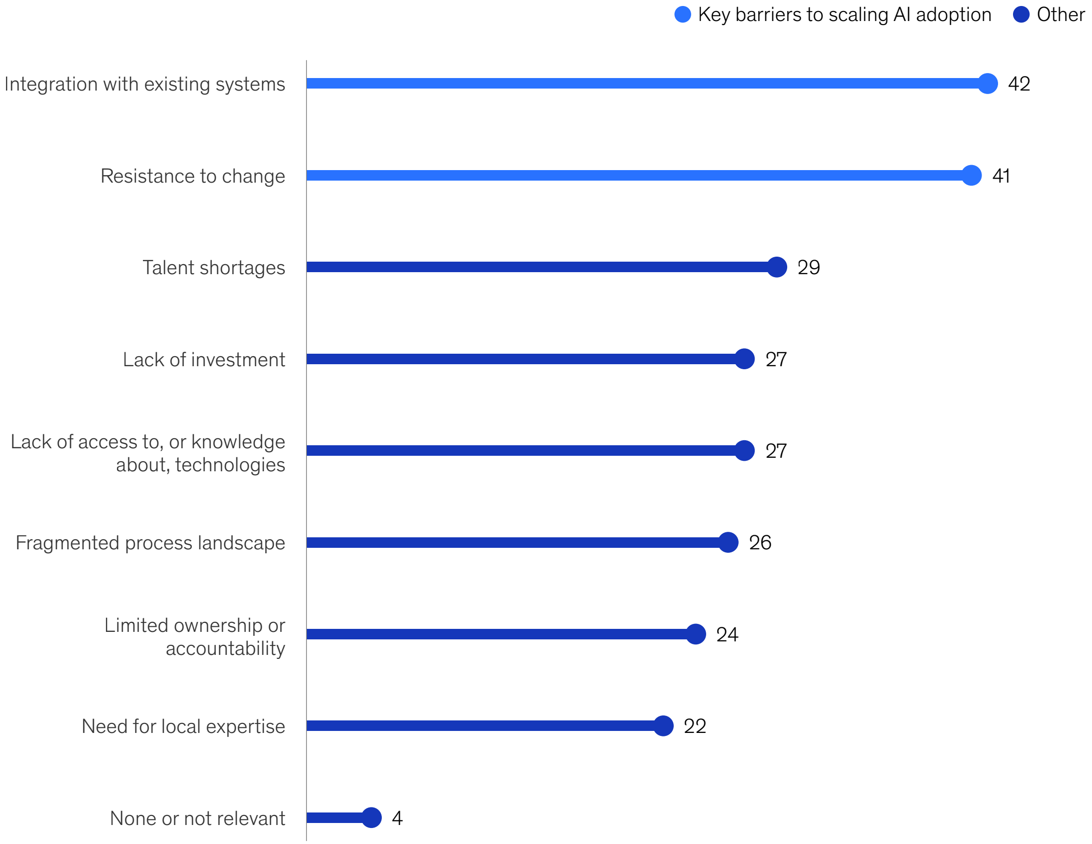
Talent and capability shortages can also be challenging. Demand for digital, analytics, and AI skills far exceeds supply, particularly in industries with lower AI-skill density. Many organizations have talent footprints aligned to today's business needs rather than to tomorrow's critical skills, creating structural mismatches. Centralization and virtual models can help rebalance talent access, while continuous capability building and reskilling remain essential to support AI adoption and new operating models.

Finally, regulatory and geopolitical complexities can impede progress. As AI-native GBS drives cross-border data flows, companies need to navigate data privacy, local AI regulations, and geopolitical risk. These factors now shape GBS footprint strategy, determining where data is stored, which centers operate under which jurisdiction, and what needs to be done to ensure resilience in an uncertain global context.

Exhibit 6

Survey respondents said the largest barriers to scaling AI are integration with legacy systems and organizational resistance.

Biggest barriers to adding scope to organizations' shared-service operations, % of respondents (n = 8,175)



Note: Respondents were asked to identify the biggest barriers for adding additional scope to their shared-service operations.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

McKinsey & Company

Finding the right formula

The evolution from SSC to AI-native GBS will not follow a linear path. It will depend on digital maturity, investment appetite, and leadership vision. Some priorities stand out:

Prioritize investment in advanced technologies
Agentic AI needs to be a central pillar of GBS strategy. That means processes will need to be prioritized based on impact and feasibility, starting with those that offer meaningful value and manageable risk. Where there are contrasting pathways, such as AI for an already centralized process versus centralizing through AI, these can be tested using proofs of concept. Avoiding foundational or value-critical processes early on will mitigate risk while accelerating learning.

One global pharmaceutical company implemented a generative AI copilot to automate financial planning and analysis, resulting in a 30 percent reduction in financial planning and analysis (FP&A) transactional activity and 15 percent reduction in FP&A operating expenditure. The turnaround was quick: Proof of concept took just six weeks.

More broadly, AI can be used to overcome fragmented systems and siloed data, moving toward no-touch, end-to-end processes. This requires embedding AI governance to ensure ethical, transparent, and compliant use of data.

Reassess the role of process standardization
In an agentic AI world, strict standardization is less critical than before, but still valuable for harmonization and resource bundling in lower-cost locations. Hub-and-spoke models that balance efficiency with flexibility remain relevant and will continue to be used.

Make GBS transformation a top priority for management
GBS leadership needs to be elevated into enterprise decision-making, including participating in quarterly business reviews. Forty-two percent of survey respondents say organizations need to create a clear vision, leadership mandate, and governance structure for GBS transformation.

Build talent and innovation ecosystems
GBS teams need to improve their digital fluency and ability to work with AI, just as other teams do. Organizations can partner with technology providers, start-ups, and academia to accelerate capability building. They should also redesign incentives and career paths to attract and retain digital talent.

Align footprint strategy to the new geopolitical reality
Finally, future GBS centers need to balance cost, capability, and resilience. Organizations should use a diversified-footprint strategy that accounts for regulatory constraints, cybersecurity, and geopolitical risk.

AI can be used to overcome fragmented systems and siloed data, moving toward no-touch, end-to-end processes. This requires embedding AI governance to ensure ethical, transparent, and compliant use of data.

Finding value in a new geopolitical context

At a time when geopolitical fragmentation, regulatory complexities, and unpredictable trade dynamics are disrupting organizations, building resilient structures and balancing global scale with regional adaptability are more important than ever. Organizations need to develop a deep-seated flexibility that enables them to bounce forward and find value in the new context. Technology can help them anticipate risks, reallocate resources, and maintain operational agility.

Survey highlights

Seventy-two percent of respondents report a notable impact of geopolitical uncertainties on their organizations.

Thirty-eight percent blame rigid organizational structures as the main obstacle preventing rapid responses to the changing environment, followed by local regulations (32 percent) and cultural resistance (29 percent).

Only 26 percent of business leaders engage in quarterly scenario planning to assess geopolitical trends and their potential financial and operational impacts.

What's changing?

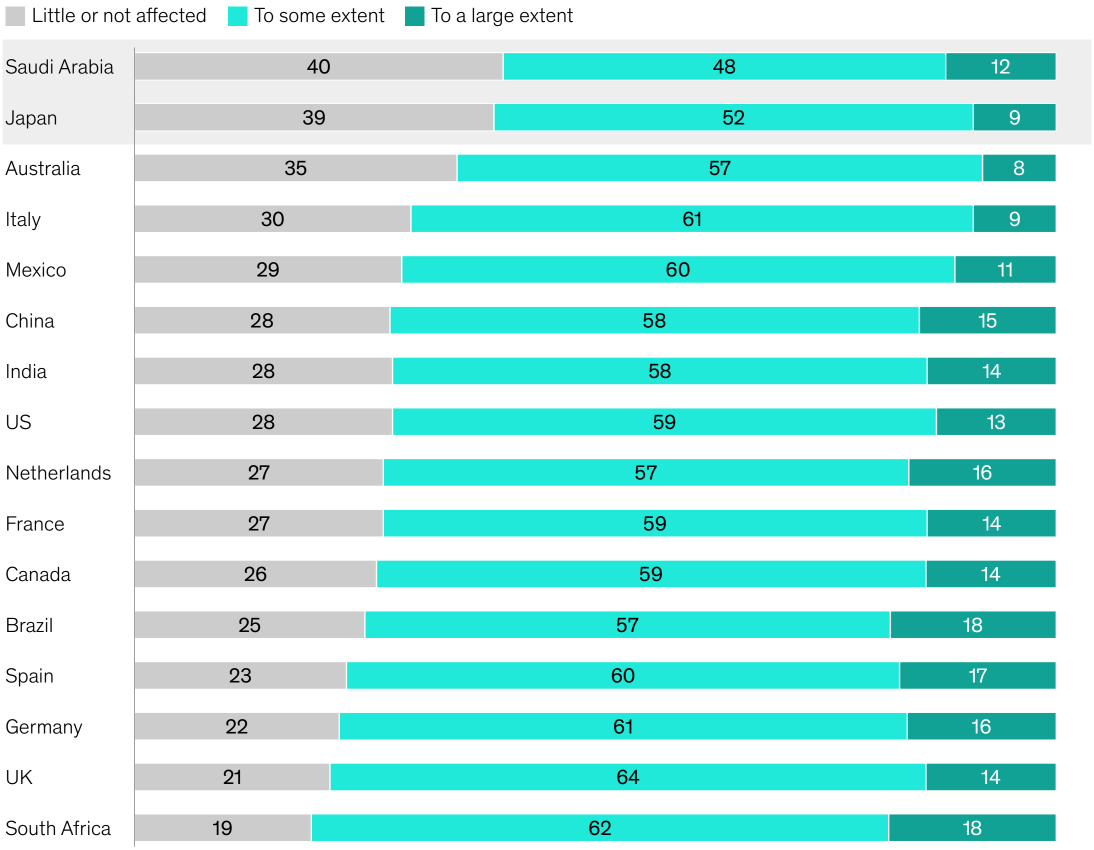
Increasing geopolitical tensions and fragmented regulations continue to disrupt industries, and the impacts are expected to deepen through 2026. Global value chains are being buffeted by a combination of trade conflicts, tariffs, political polarization, and declining trust in collaboration and stability.

In our survey, almost three in four leaders (72 percent) agree that geopolitical uncertainties is affecting their organizations. The degree of impact varies by type of company, with services businesses less affected than goods companies. The variations also depend on business models as well as whether companies have multisourcing strategies and a diversified geographical footprint. These latter two factors can be both a strength and a vulnerability. On the one hand, organizations with greater geographical spread are more exposed to geopolitical risk, with 74 percent saying they are affected at least to some extent, compared with 63 percent among those with less geographical spread. On the other hand, among the 28 percent of leaders who say they have been less affected by geopolitics, almost one in three (32 percent) cite their diversified geographical footprint as a mitigating factor, alongside multisourcing strategies (29 percent). The nature and geography of home markets also matter: In Saudi Arabia and Japan, for example, about two in five leaders—well above the survey average—say they are not affected by geopolitics (Exhibit 7). This is because their business model is oriented more toward services than goods, and they focus more on the local market.

Exhibit 7

Survey respondents in Saudi Arabia and Japan were most likely to say their organizations have not been affected by geopolitics.

Extent to which geopolitical changes have affected organizations, % of respondents (n = 10,018)



Note: Figures may not sum to 100%, because of rounding. Respondents were asked to what extent geopolitical changes have affected their organizations.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018 (Australia [n = 456], Brazil [n = 523], Canada [n = 504], China [n = 386], France [n = 654], Germany [n = 605], India [n = 506], Italy [n = 412], Japan [n = 694], Mexico [n = 401], Netherlands [n = 216], Saudi Arabia [n = 197], South Africa [n = 343], Spain [n = 403], United Kingdom [n = 701], United States [n = 3,017])

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The benefits of getting it right

In this world of geopolitical uncertainty, organizations can thrive if they develop a deep-seated flexibility that enables them to bounce forward rather than backward, advance beyond immediate risks, and recover faster from external shocks. This flexibility has four primary benefits:

First, aligning operations and strategy with geopolitical realities can help companies protect existing value, unlock new growth opportunities, and gain a competitive edge. For example, it can unlock more effective global resource allocation, optimized market entry, smarter risk-taking, and the ability to seize opportunities—such as entering emerging markets or reallocating investments—before competitors do. Technology, including AI and data analytics, acts as an important enabler here, allowing real-time scenario planning, automated risk assessment, and faster resource redeployment.

Second, a well-designed organizational structure and strong governance allow quicker responses to regional changes. Multinational corporations can pivot resources, adjust supply chains, or reallocate talent efficiently. Digital tools provide visibility and coordination across regions, reducing the friction caused by geopolitical disruptions. This in turn enables stronger risk management: Organizations that anticipate and adapt to geopolitical shifts can avoid costly surprises and maintain business continuity across regions.

For example, Samsung experienced an increase in foundry sales after expanding its supplier base to the United States and Vietnam to mitigate risks associated with geopolitical tensions in Asia.[21] Companies that have been less reactive tend to regret it: 43 percent of surveyed executives said they divested assets too late or failed to divest when they should have.[22]

Third, demonstrating resilience and foresight in a complex geopolitical environment builds trust with investors, partners, and regulators. It signals long-term sustainability and strong leadership. Companies that rapidly reallocated resources and talent were 2.2 times more likely to outperform their competitors on total shareholder returns than those that did so more slowly.[23]

Finally, balancing global scale with strategic regional adaptability can improve access to talent, enhance customer satisfaction, and enable faster, regionally informed decision-making. By contrast, weak technology and data infrastructure risk limiting the ability to leverage these advantages, constraining speed, flexibility, and cross-border coordination.

In a world of geopolitical uncertainty, organizations can thrive if they develop a deep-seated flexibility that enables them to bounce forward, advance beyond immediate risks, and recover faster from external shocks.

21 Daniel Chiang and Jingyue Hsiao, “Samsung localizes supplier base amid rising geopolitical risks,” DIGITIMES Asia, August 23, 2023.
22 Ariel Babcock, Sarah Keohane Williamson, and Tim Koller, “How executives can help sustain value creation for the long term,” McKinsey, July 22, 2021.
23 Mike Barriere, Miriam Owens, and Sarah Pobereskin, “Linking talent to value,” *McKinsey Quarterly*, April 12, 2018.

Issues to address

As shown in Exhibit 8, four forces aggravate the challenges posed by geopolitics, according to our survey respondents: organizational rigidity (cited by 38 percent), local regulations (32 percent), organizational-culture resistance (29 percent), and weak technology and data foundations (26 percent).

Organizational rigidity

Rigid organizational structures and processes for decision-making, governance, and resource allocation hinder the ability of organizations to respond rapidly to the changing environment. Our survey suggests that poor adaptability and overreliance on single dependencies, including suppliers, geographies, or production hubs, increase financial, regulatory, and geopolitical risks.

Rigidity is a more significant barrier in larger organizations. Almost half (46 percent) of leaders in organizations with more than 30,000 employees cited rigidity as a major challenge, compared with just over one-third (34 percent) of leaders in smaller organizations (one to 5,000 employees). Organizations with greater geographical spread are more likely to cite "rigid organizational structures and processes" as a major barrier to managing global fragility, reinforcing the notion that globally distributed operations are particularly likely to struggle with structural rigidity and complexity.[24]

Local regulations

Survey results suggest that larger organizations are particularly affected by this, likely because of the regulatory complexity of broader operational footprints, large-workforce requirements, and increased scrutiny. The survey suggests some geographic variations, with survey respondents particularly focused on local regulation in Australia (41 percent), Brazil (39 percent), India (38 percent), and South Africa (38 percent).

Cultural resistance

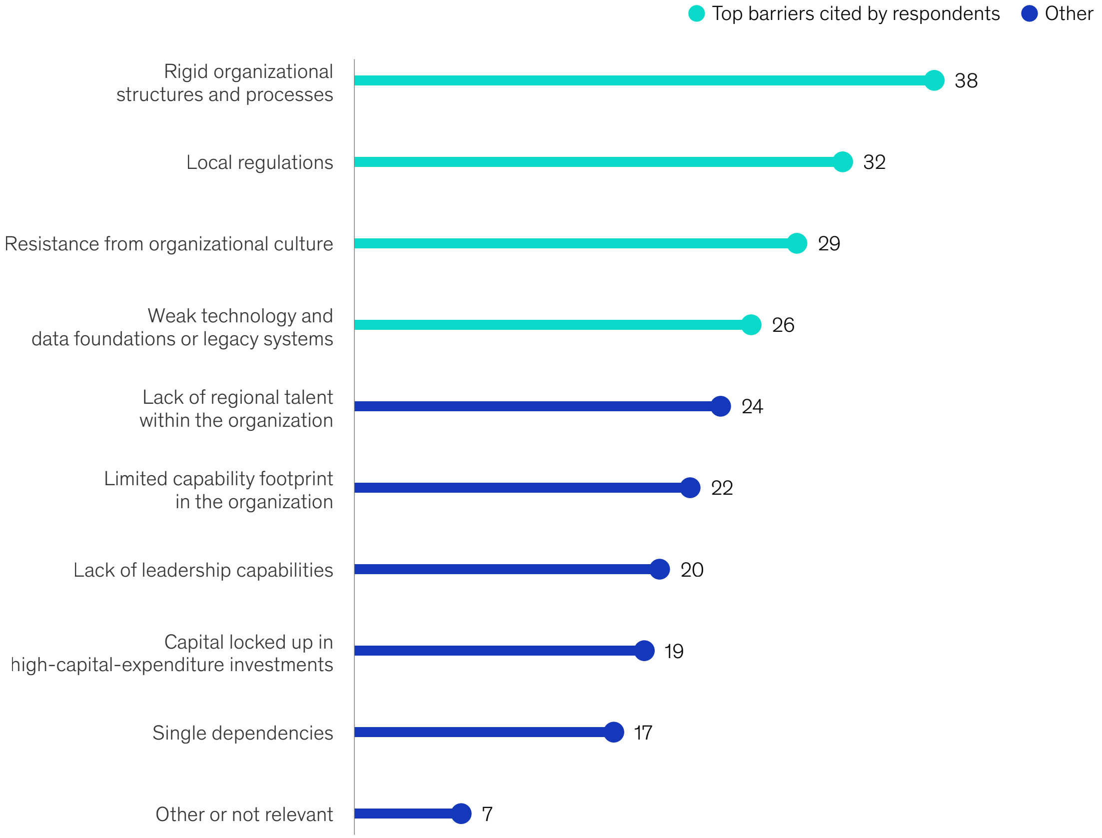
This obstacle is more pronounced in North America (32 percent) and Europe (29 percent) than in the Asia–Pacific region (23 percent). Cultural resistance hits hardest where energy runs low: 45 percent of employees in fatigued organizations see it as a barrier, compared with just 28 percent in highly energized teams.

24 We used the presence of a shared-services center as a proxy for greater geographical spread to assess whether organizations with broader footprints report higher exposure to geopolitical risk.

Exhibit 8

Survey respondents identified organizational rigidity as the biggest barrier to managing geopolitical fragility.

Organizations' biggest barriers in dealing with increased global fragility,
% of respondents (n = 10,018)



Note: Respondents were asked to select their organization's biggest barriers in dealing with increased global fragility.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

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In the current context, organizations will want to adopt operating models rooted in adaptability. That means dynamic scenario planning and simulation to navigate regulatory, political, and economic shocks and uncertainty.

Weak technology and data infrastructure
This limits the ability of organizations to forecast risks, integrate real-time regional insights, and coordinate swift cross-border decision-making. It leaves companies vulnerable to external pressures and without the freedom that technology provides to overcome them.

Finding the right formula

Leaders looking to foster resilience and prepare for different scenarios arising from geopolitical shifts will need to reevaluate three fundamental organizational elements—value at stake, organizational structure, and governance.

Value at stake
While most organizations have well-defined value creation theses for their businesses, recent geopolitical developments may have rendered the assumptions behind these theses obsolete. Business leaders need to stress-test and, where necessary, modify their strategic plans. Organizations can assess their "geopolitical distance"—the degree of alignment or divergence between the foreign policy positions of the countries in which they operate and their home countries.[25] Greater geopolitical distance signals higher exposure to tariffs, sanctions, or export controls that can disrupt growth and operations, and thus greater potential for disruption.

The German toy company tonies is reducing its geopolitical exposure by shifting some manufacturing from China to Vietnam, as CEO Tobias Wann explains in an interview at the end of this section. Other multinationals are creating regionally independent entities to adapt to divergent regulatory environments. These choices reflect trade-offs among growth, efficiency, and risk tolerance that need to align with a company's strategy and risk appetite.

In the current context, organizations will want to adopt operating models rooted in adaptability. That means dynamic scenario planning and simulation to navigate regulatory, political, and economic shocks and uncertainty. Seventeen percent of survey respondents currently have no defined methodology to assess the impact of geopolitical trends, and only 26 percent engage in quarterly scenario planning to

25 For more detail on geopolitical distance, see "Geopolitics and the geometry of global trade: 2025 update," McKinsey Global Institute, January 27, 2025.

assess geopolitical trends and their potential financial and operational impacts. Smaller organizations with less than 5,000 employees are 50 percent less likely to engage in quarterly scenario planning than larger ones.

Technology removes some organizational shackles. By digitalizing end-to-end processes, integrating data flows, and enabling virtual collaboration, it allows companies to operate seamlessly across borders and reduce dependence on physical locations.

Organizational structure
Adapting to changed circumstances requires strategic reorganization—either centralizing or separating business units, functions, and services across distinct geopolitical spheres. The key levers for a reorganization, according to survey respondents, include process and workflow redesign (cited by 34 percent of respondents) and adjustments to talent strategy (32 percent). These are specifically relevant for organizations that expect geopolitical shifts to have at least some impact. Large organizations (those with more than 50,000 employees) lean more than the average on process redesign (37 percent) and supply diversification (31 percent), indicating that the scale of larger organizations makes it harder for them to remain agile.

Identifying top priorities on a quarterly basis allows for big pivots, including flexible reallocation of resources. Reorganizations can also be supported by equipping execution teams with end-to-end process visibility and fast access to decision-makers supported by real-time technology platforms.

Organizations that defined themselves as more confident make bolder, more holistic reallocation moves: The survey shows that they are seven percentage points more likely (36 percent versus 29 percent) than their less confident counterparts to employ organization-wide budget and talent reallocation. By comparison, less confident organizations tend to limit the reallocation process to individual business units.

Integrating geopolitical distance into organizational design decisions can guide decisions about which capabilities to centralize, separate, or duplicate to reduce exposure. For example, establishing regional hubs or mirrored structures in geopolitically distant markets allows companies to remain operationally resilient even when global conditions shift.

Governance
Governance is especially relevant for multinational corporations. Embedding flexibility into the legal and capital structure allows the organization to both access new opportunities as they emerge and pull back from markets quickly when necessary and without stranded costs. Establishing independent legal entities in geopolitically distant geographies can create structural separation, and local entities can better align with and respond to the laws and policies of their respective jurisdictions.

Digital security might be a sleeper governance issue: Only 25 percent of leaders prioritize it, despite growing cyber-fragility risks, suggesting a hidden vulnerability in governance discussions. Digital security and technology infrastructure act as critical enablers, providing both protection and operational freedom in volatile geopolitical contexts.

17%

Share of organizations that have no defined methodology to assess the impact of geopolitical trends

50%

Degree to which smaller organizations are less likely to engage in quarterly scenario planning than large ones

34%

Share of survey respondents citing process and workflow redesign as a key lever for reorganization

25%

Proportion of leaders citing digital security as a priority

TOBIAS WANN, CEO OF TONIES, ON FINDING VALUE IN A NEW GEOPOLITICAL CONTEXT

‘The upside of constant organizational “alertness” is being able to cope when things change, anytime and very quickly.’

A midsize German company, tonies makes the “Toniebox,” an interactive, digital audio player for children. In the past decade, the company has grown rapidly and expanded out of Germany; North America is now its largest market. CEO Tobias Wann sat down with McKinsey’s Michael Anzenhofer and Patrick Guggenberger to discuss the organizational challenges of growing so rapidly in a challenging geopolitical context.

Tobias Wann has been CEO of tonies since January 2024. He studied business administration at the Mannheim University of Cooperative Education and economics at the University of Witten/Herdecke. During his studies, he started his own business in IT security and later sold the company to the US group VeriSign. He joined tonies after a varied career in the IT security, online travel, and fintech industries.

Tobias, from your perspective, what have been the biggest challenges you’ve had to tackle?

The complexity of our business increases along three dimensions. First, tonies consistently had growth of around 30 percent or even more each year. That kind of growth rate alone is one of the biggest organizational challenges you can have.

Second, every new market we enter adds further complexity—especially because our product is an ecosystem of both hardware and content. The hardware is the same everywhere, but the content is culture-dependent. Children in the US don’t know The Robber Hotzenplotz, so we need new licenses and products for each cultural region.

Third, sales channels differ greatly across markets. Retail structures vary widely, and even major marketplaces like Amazon work very differently in the US than in Europe. Overall, our organization must manage an extremely high level of complexity.

With such enormous growth, how did you handle it organizationally?

Every phase in tonies’ still relatively young history has brought its own challenges. Recruiting talent, developing and establishing processes, learning the rules of new markets—all of that has to happen simultaneously but with changing priorities over time. When you grow this fast for ten years straight, you’re constantly challenged to review and improve what you do and how you do it.

How do you respond to that? You regularly bring new people on board—ideally those who have been ahead of the curve before—so they can help the organization develop. On top of that, you need robust systems that can scale quickly. And I’m not talking gradual upgrades here but revolutionary ones. They happen in leaps and require significant effort and risks.

For many German companies—especially midsize ones—it’s the big dream to succeed in the US. Why did it work for you?

Our global product–market fit certainly helped. But the real success factor is that we have an incredibly enthusiastic, energetic, well-functioning team on the ground. Without that team—and without their enthusiasm for the product and the will to tailor it locally for success—it would never work.

In 2025, North America became our largest market, at roughly 50 percent of our total revenue—and it's still just the beginning. In Germany, Tonieboxes are in 50 percent of households within our target group, whereas in the US, we're only in about 10 percent of households. There's still plenty of room to grow.

The US market hasn't been without challenges. How hard did the tariffs hit you, and how did you respond?

This was yet another challenge in an already demanding year for us. Still, I think we managed the tariffs quite well. We're used to rapid change, and we've long focused on building resilient processes and structures, including in our supply chain. That's the flip side of the coin: The upside of constant organizational "alertness" is being able to cope when things change, anytime and very quickly.

You managed to switch production. Tell us how.

My American colleagues would say: "Luck meets preparation." We had long produced our hardware—the Tonieboxes—exclusively in China. On April 1, 2025, we launched a production site in Vietnam. One day later, on Liberation Day, the US announced significant tariffs, particularly on goods produced in China. Our new factory gave us the option to import Tonieboxes for the US market from Vietnam, with much lower tariffs. In addition, we were able to lower our cost base. Together, these moves offset the tariff shock without us having to raise prices noticeably.

When I look at the toy aisle, 80 to 100 percent of products are made in China. Competitors without alternative manufacturing will likely have to raise prices more dramatically than us. That improves our relative position, giving us the chance to grow even in a crisis.

To strengthen resilience, tonies expanded not just production but the entire value chain. What did that involve?

It started with an examination of our entire value chain. We took a close look at our innovation process, our product development, all the way to how customers are using their Tonieboxes at home. We identified the elements most in need of action and those promising the greatest progress per euro invested.

In our supply chain, we focused on minimizing the time between ordering components and delivering the finished product to households. Like with any physical product, that process ties up a lot of capital. By improving logistics, we were able to speed things up and cut costs significantly. We also diversified our supplier base, which helped us increase supply security and lower costs.

With a new organization, many new colleagues, and now a new leadership team, how did employees react?

Very differently! I fully understand that for an organization already operating with high complexity and speed, those changes are not easy to digest. We spent a lot of time explaining why these steps were necessary and what we wanted to achieve. We communicated very intensively about what we expect going forward and how we can take the company to the next level together.

AI is on everyone's mind. How is tonies approaching it?

It's an exciting and important topic for us. We created a new executive role, chief information officer, specifically to manage AI adoption across the company. Right now, we are mainly exploring how AI can improve and accelerate our processes. Our workforce is used to rapid change and very curious about trying out new things.

Are you already using AI in content creation?

The developments in that area are fascinating, but we're taking a deliberately cautious approach. We invest a lot of time and resources in producing safe and high-quality content for children. Authenticity is a key hallmark of quality. AI can support certain aspects of production, but it cannot replace the authentic creative process.

From structure to flow: Reaching the next productivity frontier

Productivity growth in many organizations has hit a ceiling. To break through it, leaders need to shift their attention from structure to how work gets done. The biggest payoff lies in radically simplifying and unifying processes across the enterprise, not in reorganizing org charts. That means eliminating duplication, synchronizing information flows, streamlining decision routines, and automating where possible. Structure supports; it doesn't lead.

Survey highlights

- Forty-three percent of surveyed leaders cite productivity growth as their top priority.
- Two-thirds say their organizations are overly complex and inefficient.
- Nearly 40 percent view redefining process flows as the biggest unlock to overcome productivity barriers in the next one to two years.

What's changing?

Executives cite productivity as their primary challenge: 43 percent say it is their top priority, and 61 percent feel "high pressure" to deliver further gains. Two-thirds of executives see their organizations as overly complex and inefficient. Leaders from larger organizations (with more than 50,000 employees) are twice as likely as those from smaller organizations (with 1,000 to 5,000 employees) to say they feel very high pressure to deliver further productivity gains.

Yet many organizations are running into diminishing returns on traditional efforts that rely on structural redesigns, cost cuts, and flatter hierarchies. Such efforts can boost productivity in the short term but often fail to sustain improvement because they leave processes, behaviors, and data silos untouched. For example, one firm found that it was duplicating 35 percent of decisions across functions, holding 60 percent more meetings than peers, creating two-month lags in data cascading, and spending more than 1,000 hours per month on manual reporting.

McKinsey's refreshed research on "Organize to Value" shows that structure is only one piece of the puzzle; sustained value capture largely depends on how work flows across functions and levels.[26] While many organizations default to structural redesign because it creates visible accountability and perceived control, our research shows that updating the org chart without redesigning workflows often leads to a rebound in costs and inefficiencies.

While many leaders understand that process optimization is a valuable productivity lever, most tend to do so with a siloed approach: They focus on functional optimization without meaningfully changing desired outputs. But there are signs of change. Our survey suggests that leaders in North American and Europe in particular are beginning to recognize the importance of end-to-end optimization and plan to address this in the next one to two years. Leaders who rank their organizational setups as better than peers' were about 30 percent more likely to have undertaken process optimization compared with those who feel they have worse setups.

Most leaders tend to focus on functional process optimization without meaningfully changing desired outputs, but there are signs of change: Leaders in North America and Europe plan to address end-to-end optimization in the next one to two years.

26 "A new operating model for a new world," *McKinsey Quarterly*, June 18, 2025.

The benefits of getting it right

Redesigning and optimizing workflows can have substantial benefits, including potentially dramatic gains in speed, clarity, and focus. They can also have transformational effects on culture and alignment.

In our experience, organizations can increase the speed of their decision cycles as much as threefold by implementing end-to-end process redesign. One consumer packaged goods (CPG) company that integrated its commercial, R&D, production, and procurement processes increased its speed to market by a factor of 1.5, leading to a 20-percentage-point increase in the net present value of its pipeline.

Another powerful lever is simplifying governance, which can free up anywhere between 20 and 60 percent of management time for strategic work, based on our experience. One European retailer, after minimizing governance participation by 60 percent in a week, sharpened decision-making and built organizational resilience. A global fast-moving consumer goods (FMCG) firm that discovered mass duplication of its reports and decisions was able to eliminate 70 percent of these duplications by clarifying accountabilities, cutting data points by 30 percent, and rolling out automated dashboards. Overall, this boosted speed and improved employee engagement by 25 percentage points.

The benefits for culture and alignment can be just as transformational. Optimizing processes encourages a "one company" mindset: Instead of working within functional silos, people collaborate across functions, markets, and levels. Over time, these changes lead not just to efficiency gains but to better strategic execution, improved organizational health, and stronger long-term performance.

Issues to address

In our experience, organizations need to overcome four main challenges to implementing process optimization: accountability gaps across functions, mindset and culture barriers, complexity and political dynamics, and resource allocation and investments in change.

Accountability gaps across functions

Cross-functional processes such as strategy, budgeting, forecasting, and performance reviews can consume 40 to 65 percent of managerial and overhead time, yet they often lack clear accountability beyond executive leadership. Among survey respondents, 35 percent believe reducing organizational silos will unlock productivity in the next one to two years.[27]

Common dysfunctions include parallel organizations—for example, the activities of commercial and operations sometimes overlap—along with redundant governance, characterized by frequent reopening of decisions and conflicting mandates. Fragmented data systems are also dysfunctional because they lead organizations to struggle with different definitions, multiple spreadsheets, and inconsistent metrics. Finally, rigid one-size-fits-all processes across diverse markets and units ignore strategic distinctions, such as lead versus expansion markets.

In our experience, organizations can increase the speed of their decision cycles as much as threefold by implementing end-to-end process redesign.

27 Dana Maor, Patrick Guggenberger, and Alina Holzer, "Want to break the productivity ceiling? Rethink the way work gets done," McKinsey, August 27, 2025.

Mindset and culture barriers

Mindset and culture can hamper process optimization plans from several directions. Sometimes this stems from communication problems: One in three of the leaders in our survey cite unclear focus on short-term cost cutting and a lack of long-term orientation as barriers to addressing the root cause of productivity stagnation. In other words, leaders are focusing on cutting costs instead of building genuine value. At the same time, talent is often rewarded for functional success rather than for enterprise-wide outcomes. This can foster an “us versus them” mindset. Moreover, many organizations default to backward-looking modes, focusing on preventing past failures instead of innovating and pushing forward.

Change can also be scary, and cultural resistance is real: In one CPG firm, commercial and production units resisted giving up control. As part of the solution, leaders held joint meetings over several months to expose data differences, build alignment, and emphasize what truly mattered.

Finally, change fatigue can compound the problem if repeated structural or cosmetic changes with minimal process redesign have eroded trust and engagement.

Complexity and political dynamics

The path to redesign is not purely technical—it requires negotiating roles, power, and influence across functions and layers. But deciding which duplications to eliminate, which decisions to centralize or decentralize, and who “owns” processes invites internal politics.

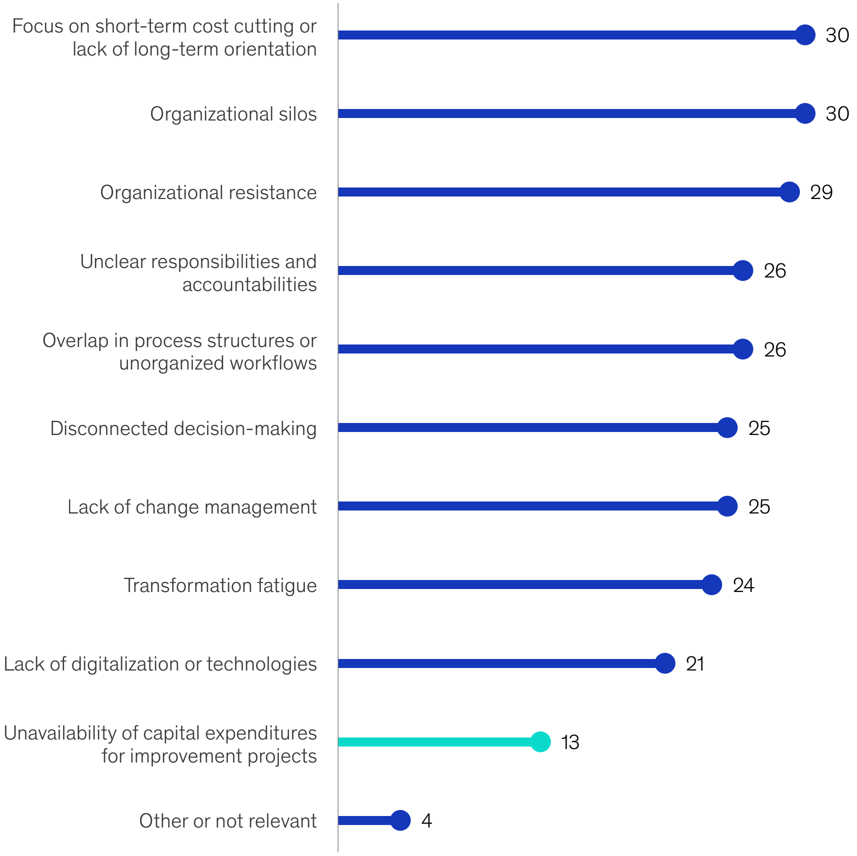
Resource allocation and investments in change

When it comes to workflow redesign, our surveys suggest that resource allocation is often neglected. While a lack of resources and insufficient investment in change are sometimes cited as obstacles to process optimization, the respondents to our survey downplayed these factors. As shown in Exhibit 9, only 13 percent of the leaders surveyed said that the unavailability of capital expenditure was a barrier, the least frequent of the obstacles mentioned.

Exhibit 9

Limited capital expenditures was least likely to be cited as a barrier to addressing the root causes of productivity stagnation.

Primary barriers to addressing root causes of productivity stagnation,
% of respondents (n = 10,018)



Note: Respondents were asked to select the primary barriers to addressing root causes of productivity stagnation in their organization.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

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Finding the right formula

How can organizations move from point A to point B in a successful process redesign that aligns with their strategic goals? This may sound simple, but it requires a disciplined, multistep approach rooted in process, value, and behavior. Thirty-nine percent of survey respondents view redefining process flows as the best way to overcome productivity barriers in the next one to two years (Exhibit 10). We see a five-step process.

Step 1: Diagnose process maturity across workflows
This step entails mapping key cross-functional processes, including strategic planning, budgeting, forecasting, performance reviews, commercial review, sales and operations planning (or integrated business planning), product development, and life cycle management.

Teams can use four levers to assess weaknesses. First is to eliminate nonessential governance, redundant meetings, and overlapping processes. Second is to synchronize and speed up information flow among markets, business units, and headquarters so as to align decision timing. Third is to streamline efforts and focus only on decision-relevant inputs—trimming reporting templates and eliminating low-value detail. The fourth key to success is automating processes: digitalizing workflows, integrating forecasting, reducing manual reports, and embedding dashboards and AI analytics. Nearly half of survey respondents (47 percent) cite innovation investments and a culture of continuous improvement as critical solutions.

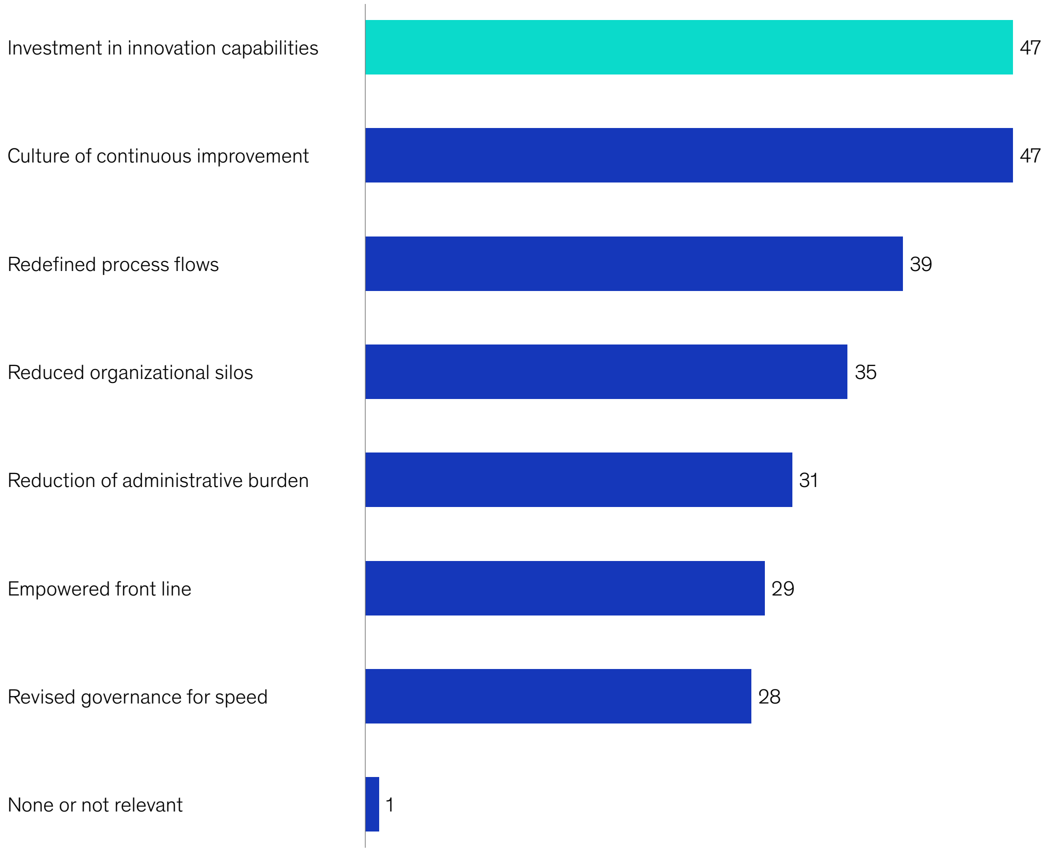
Step 2: Redesign processes and routines
Quick, early wins signal change and build credibility fast. These can include reducing the frequency of meetings and cutting governance participation.

Longer-term impact can be achieved by prioritizing workflows with the highest strategic impact. For example, for product development, this can entail better product–market fit, faster launch cycles, and an optimized innovation pipeline. For integrated planning, it would mean linking design, demand, supply, marketing, and financial planning into unified flows. Sales and operations planning can evolve into integrated business planning to align across functions. Finally, governance needs a redesign so that decision rights and accountabilities are clearly assigned. The goal here is to avoid duplicated decision-making and ambiguity over roles.

Exhibit 10

Survey respondents cited investments in innovation capabilities as the most critical unlock to increase productivity.

Key unlocks to help organizations overcome barriers and increase productivity in the next 1–2 years, % of respondents (n = 10,018)



Note: Respondents were asked to select the biggest unlocks to overcome barriers and increase productivity in the next 1–2 years.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

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Step 3: Build cross-enterprise accountability and governance
Creating clear ownership of end-to-end value creation is not only an executive-level action; it cuts across functions. Several initiatives can enable this broader ownership. One is to reward cross-functional outcomes alongside functional KPIs. Another is to involve all stakeholders in joint governance forums to build insight, alignment, and buy-in. These can involve everyone, regardless of whether their functions are in commercial, operations, finance, or elsewhere. Finally, technology has a role: Using data transparency and shared dashboards can surface alignment and disagreements in a safe, visible forum.

Step 4: Address culture, change fatigue, and power dynamics
Culture is a key to unlocking successful process redesign: 47 percent of survey respondents believe a culture of continuous improvement will be a major step to overcoming productivity barriers.

What's needed is a conscious mindset shift from "functional excellence" to enterprise excellence. Shared purpose, mutual trust, and joint rewards can all be emphasized.

Bringing about such cultural change can start with small but visible early shifts that build momentum and reduce resistance. Side-by-side reporting and occasional joint meetings held allow teams to see that data gaps are small and can build trust. Communication is key: The organization needs to know why the change matters, how it ties to strategic goals, and what's in it for individuals.

Step 5: Embed continuous improvement and scale
The world doesn't stop once the process redesign has been put in place. Organizations don't "set and forget." They need to move to a new phase, establishing a continuous-improvement engine with regular reflection, feedback loops, and constant adjustments.

Again, technology is an important enabler here: Analytics, dashboards, and generative AI can all be used to monitor performance, surface bottlenecks, and trigger new optimization cycles.

Finally, it's important not to ignore the outside world. Process redesign is by its nature an introspective exercise, but it needs to be outward facing, too. Once it is in place, the philosophy behind it should extend beyond core operations into broader ecosystems and partner networks.

Once process redesign has been put in place, organizations need to move to a new phase, establishing a continuous-improvement engine with regular reflection, feedback loops, and constant adjustments.

Focusing on the core: Doing the right thing with more intensity

To propel growth, organizations need to identify the strategic and performance moves that deliver outsize impact. This means selecting a few areas in which to excel, building the governance and capabilities to execute on these priorities, and dynamically reallocating budget and talent to fuel them while eliminating distractions and inefficiencies. Focusing on the core is not about doing more with less; it is about doing the right things with more intensity. Leaders need the vision to innovate, the discipline to prioritize, and the courage to divest.

Survey highlights

Fifty-six percent of executives say they are clear about their organizations' must-win battles, but clarity drops sharply at lower levels, to 44 percent of senior managers and 27 percent of middle managers.

Only 30 percent of organizations reallocate resources enterprise-wide.

Barriers to resource reallocation include resistance and managerial protectionism (41 percent), poor decision-making processes (38 percent), and lack of willingness to make bold decisions (32 percent).

What's changing?

Change is accelerating across industries in a context of global uncertainty, pushing organizations to be more agile and reallocate resources faster. At the same time, competitive intensity and resource constraints are forcing organizations to differentiate and concentrate on their strengths. Markets and investors expect clarity on priorities and decisive execution. Some activities once seen as core no longer are, and vice versa. As a result, organizations need to rethink how activities are resourced, whether in-house, outsourced, or through funding models.

Clarity is the watchword here, but our survey suggests some gaps persist. While 56 percent of executives say they are clear about their organizations' must-win battles, only 44 percent of senior managers and 27 percent of middle managers say the same (Exhibit 11). This suggests a lack of shared understanding about what truly sits at the core of the business and where the company must focus its people, capital, and innovation. Without that shared focus, organizations risk spreading resources too thin and undermining performance and agility.

Our survey also highlights a link between clarity of purpose and performance: Leaders with clarity about their must-win battles are more optimistic about the next one to two years (56 percent versus 46 percent of unclear leaders) and more confident in their ability to adapt quickly to change (31 percent versus 14 percent). AI adoption is emerging as a litmus test. Leaders who don't see AI adoption in their companies are more pessimistic: 69 percent of "unclear" leaders have a negative outlook on AI, compared with 57 percent of "clear" leaders.

The benefits of getting it right

McKinsey research has shown that about 80 percent of a typical company's growth comes from its core industry—and companies that outperformed peers in core growth earned five percentage points higher shareholder returns per year.[28]

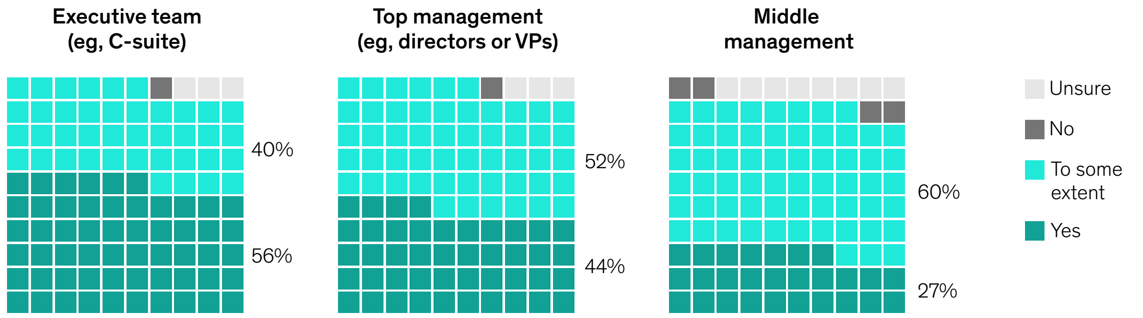
In today's context, organizations need to dynamically reallocate resources and divest to grow. Those that quickly reallocate budget and talent reduce inefficiencies, accelerate innovation, and enhance employee and customer satisfaction. In doing so, they improve their odds of beating competitors that have spread themselves too thin. Clarity on must-win battles ensures that resources are directed toward areas with high return on investment. This maximizes shareholder value, advances sustainable growth, and boosts resilience.

Effective portfolio management requires frequent divestitures of underperforming businesses. Organizations can free up capacity to take bold bets by shedding areas where they are no longer the best owner or letting go of activities that are no longer core to strategy. Portfolio pruning creates long-term shareholder returns that are above those for other strategies.[29] A clear vision that informs priority setting and decision-making needs to complement this pruning.

Exhibit 11

The majority of survey respondents, particularly executives, said they are clear about their organization's must-win battles.

Organizations' visibility on must-win battles, % of respondents (n = 10,018)



Note: Figures may not sum to 100%, because of rounding. Respondents were asked whether they have visibility on their organization's must-win battles.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

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28 Chris Bradley, Rebecca Doherty, Nicholas Northcote, and Tido Röder, "The ten rules of growth," McKinsey, August 12, 2022.
29 Andy West, Anna Mattsson, Jamie Koenig, and Anika Becker, "What it takes to make separations a competitive difference-maker," McKinsey, December 19, 2024.

Organizations that make portfolio and performance moves outperform peers. According to our research, the odds of moving to the top quintile of performers is six times higher if players perform certain strategic moves.[30] First, organizations need to invest in core initiatives and swiftly divest noncore activities to execute bold moves with discipline. Second, organizations are unlikely to achieve strong growth if the core isn't flourishing. Only one in six companies with core-segment growth rates below their industry median managed to achieve overall corporate growth rates above those of their peers, our research has shown.[31]

The semiconductor industry illustrates this strategy. According to McKinsey analyses, semiconductor companies lagged behind in the 2000s but surged back by 2024. They combined portfolio moves including dynamic capital allocation and high levels of investment with performance moves such as differentiation and productivity growth, proving the power of bold, focused strategies.

Issues to address

Five challenges stand out as significant barriers for companies looking to dynamically reallocate and focus on their core. First is a lack of clarity about what even constitutes their core. As businesses become larger and more diverse, they typically lose clarity on their core and struggle to grow. Our prior research has shown that only one in ten large businesses delivered revenue growth for seven of the past ten years. Leading companies regularly rotate their portfolios and ask whether they are the best owners of a given business or segment.[32]

A second main challenge is what we call "peanut buttering" resources—that is, spreading them too thin across the organization in an effort to distribute them equally. But peanut butter belongs on sandwiches, not in strategy: Spreading capital, operating budgets, and talent evenly across business units dilutes impact. Real performance breakthroughs happen when resources are concentrated on opportunities with the highest potential. Companies that reallocate more than half of their capital spending over a decade create roughly 50 percent more value than peers, our research has shown.[33]

As businesses become larger and more diverse, they typically lose clarity on their core and struggle to grow. Our research has shown that only one in ten large businesses delivered revenue growth for seven of the past ten years.

Rigid budget and talent practices are the third main challenge. Success requires the right governance, high-quality and timely decision-making, and some level of flexibility to free up both talent and budget so as to ensure that resources are allocated where they are most needed. However, our survey shows that many leaders are not yet ready to go all out: 74 percent of leaders would not consider reallocating more than 10 percent of their workforce, while 47 percent of leaders review budget and talent only annually or less. Of the remainder, 45 percent review quarterly, and only 7 percent do so monthly. Finally, only 30 percent of organizations reallocate resources enterprise-wide, signaling that truly enterprise-level pivots are rare.

30 Carolyn Dewar, Martin Hirt, and Scott Keller, "The mindsets and practices of excellent CEOs," McKinsey, October 25, 2019.
31 Chris Bradley, Rebecca Doherty, Nicholas Northcote, and Tido Röder, "The ten rules of growth," McKinsey, August 12, 2022.
32 *Strategy & Corporate Finance Blog*, "The growth code: Shrink before you grow," blog entry by Gerd Finck, Amos Mazhindu, Tido Röder, and Marc Silberstein, McKinsey, July 10, 2023.
33 *Strategy & Corporate Finance Blog*, "Bold moves are less risky than a timid corporate strategy," blog entry by Sven Smit, McKinsey, March 6, 2018.

Fourth are organizational barriers to reallocation. Leaders struggle to conduct dynamic reallocation of budget and talent for a range of reasons, including resistance and managerial protectionism (41 percent), poor decision-making processes (38 percent), a lack of willingness to make bold decisions (32 percent), and lack of clarity on priorities (30 percent) (Exhibit 12). While these are cross-industry averages, there is some variation among sectors. For example, manufacturing and frontline-heavy industries such as advanced industries, energy and materials, and retail or CPG are two to five percentage points less agile than industries such as TMT and professional services when it comes to process efficiency in reallocating budgets and talent.

Finally, some organizations hesitate to separate themselves from noncore activities through spin-offs, split-offs, carve-outs, and other sales of businesses in their portfolio. Big moves can feel daunting, and many companies struggle to accept that they might no longer be the best owner for part of the business. Such organizational hesitation can stem from a variety of reasons, including valuation concerns, separation timing, sunken costs in the assets, and potential negative impact on the rest of the company.[34]

Finding the right formula

How can organizations ensure clarity about their bold moves and must-win battles and then cascade these down through the leadership ranks? We see five steps to ensure that leaders at different levels and their teams focus on these moves and battles:

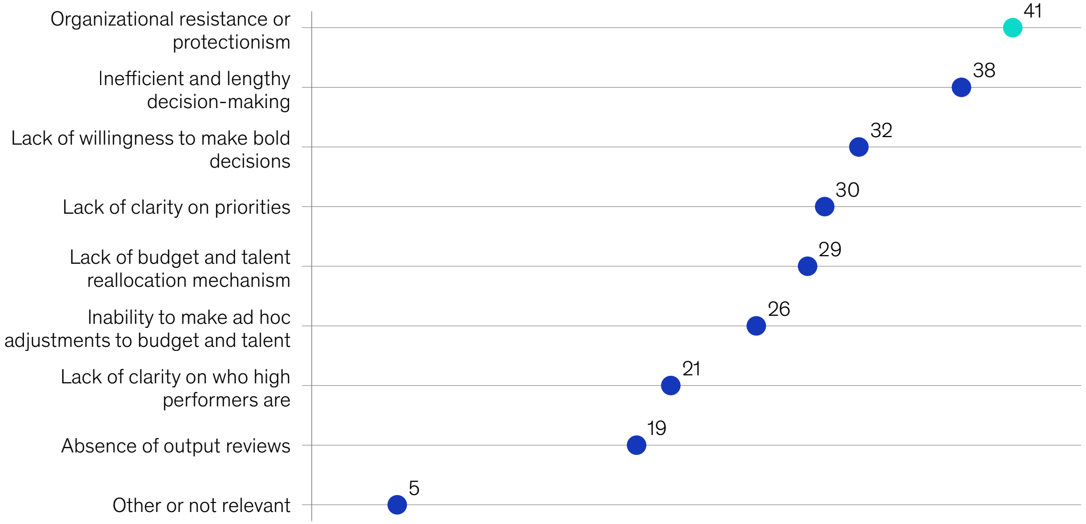
Clarify and cascade must-win battles across the organization
Leaders need to be clear on portfolio moves. First, they need to identify which businesses are the best owners of their assets—including companies outside their organizations—and determine what they can add to, or remove from, their core. Then they need to follow through relentlessly, ensuring that managers and employees focus their energy and resources on these priorities.

Embed bold bets and agility in governance
Leaders need to establish robust governance to ensure that priorities are well chosen. The priorities can be new geographic markets, products and services, innovation, customer engagement, or price positioning. Leaders then need to ensure that resources are reallocated decisively and identify low-impact and noncore activities for divestment to free capacity for priorities.

Exhibit 12

Survey respondents cited organizational resistance as their biggest challenge when it comes to reallocation of budget and talent.

Organizations' challenges when it comes to the dynamic reallocation of budget and talent,
% of respondents (n = 10,018)



Note: Respondents were asked to identify the challenges they face when it comes to the dynamic reallocation of budget and talent.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

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34 Andy West, Anna Mattsson, Jamie Koenig, and Anika Becker, "What it takes to make separations a competitive difference-maker," McKinsey, December 19, 2024.

Dynamically reallocating resources allows organizations to keep up as industries shift to faster cycles. That means understanding the need to separate from noncore assets, anticipating the challenges involved, and taking practical steps to meet them.

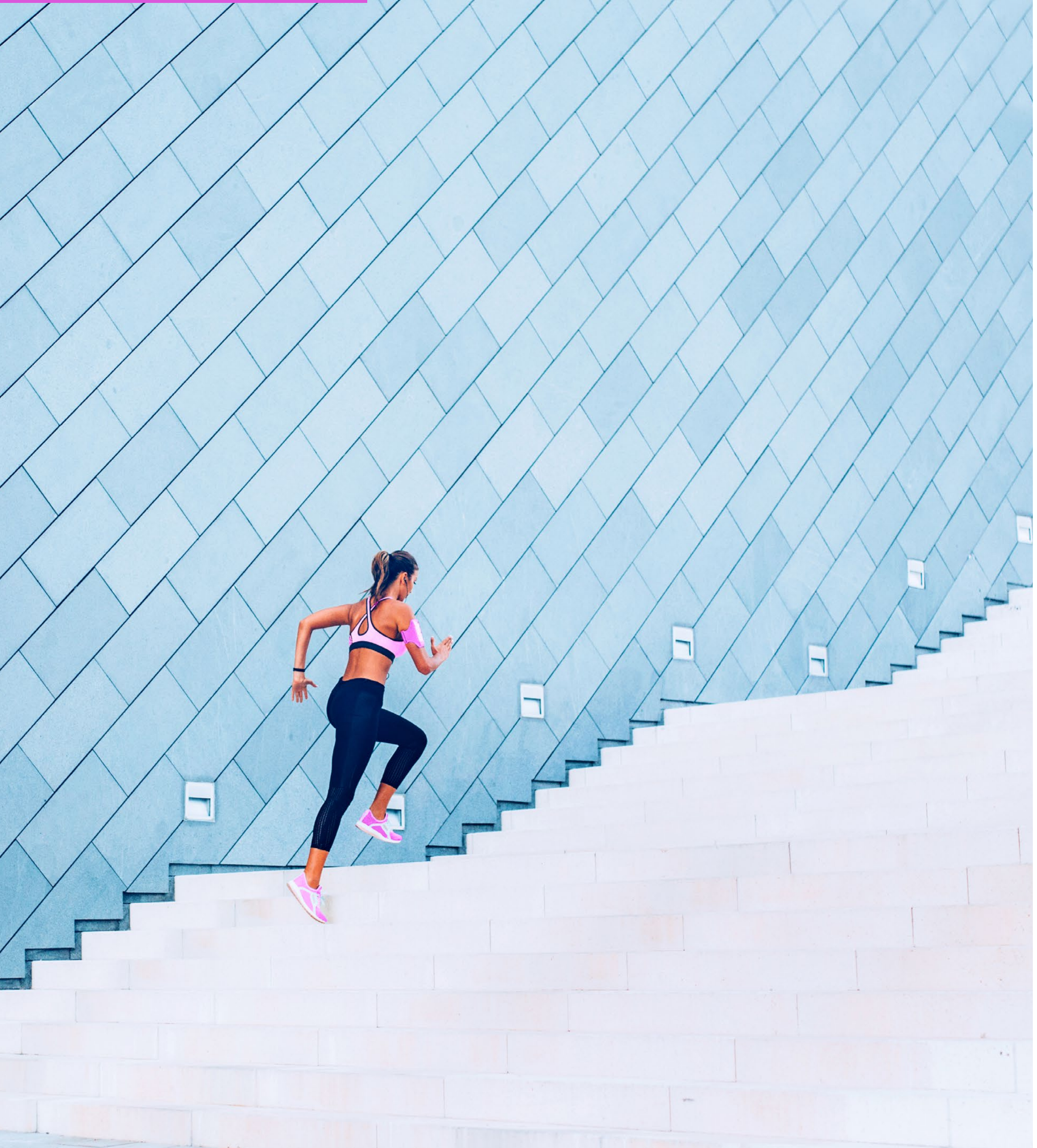
Institutionalize dynamic reallocation
The process of dynamic reallocation includes not just internal reallocation but also selling off noncore parts of the business. Doing so requires moving beyond annual planning and increasing the frequency of budget and talent reviews. Resources need to shift quickly to where they create the most value: According to our survey, one in three leaders say more frequent reviews of budget and talent allocation is a critical enabler.

Dynamically reallocating resources allows organizations to keep up as industries shift to faster cycles. That means understanding the need to separate from noncore assets, anticipating the challenges involved, and taking practical steps to meet them.

Align talent to priorities
Three steps can help align talent to priorities. First, identify top performers and redeploy them to must-win areas. Second, create incentive structures that prioritize horizontal success—that is, enterprise-wide wins—over vertical success, often measured by departmental KPIs. Third, use AI-driven talent matching to optimize placement of high performers.

Balance stability and flexibility
Core operations need a stable workforce to run smoothly. This can be achieved by reallocating a flexible portion of talent to high-priority projects as needs evolve. "Pet" projects that no longer align with must-win battles should be discontinued quickly.

By sharpening focus on core strengths, dynamically reallocating resources, considering divestures, and embracing innovation, organizations can break through inertia, outperform competitors, and secure long-term resilience and growth.



Aiming higher with a new performance edge

Unleashing the full potential of an organization’s human capital by focusing on both people and performance can lead to strong business results. While many organizations aim to improve their performance, less than 25 percent achieve sustained impact. Such impact requires a focus on distinctive organizational capital, including management practices, systems, culture, and, critically, investments in employee health and well-being.

Survey highlights

About 45 percent of respondents see greater employee commitment to aim higher. That share rises to 50 percent in less-pressured organizations.

Main barriers to building a high-performance culture are limited career progression opportunities (47 percent), lack of targeted incentives (43 percent), disengaged employees (38 percent), and rigid performance-management systems (38 percent).

Only 20 percent believe nonfinancial rewards meaningfully boost performance, which means that most companies are underinvested in human motivation.

What's changing?

The "Great Attrition" trend observed during the pandemic era is over,[35] and organizations face slower or stagnating growth. The rapid rise of AI and geopolitical uncertainties are putting additional strain on employees. Organizations are shifting their focus from simply retaining personnel to truly driving employee performance. More is being required of employees in 2026—and will be required in the future—and they are responding accordingly: About 45 percent of business leaders in our survey are already seeing greater employee willingness to "aim higher."

This trend is strongest in organizations whose leaders feel less pressure to achieve further productivity gains. In these organizations, 50 percent of leaders are seeing greater employee commitment to aim higher, compared with 43 percent of leaders from higher-pressure organizations. Only 14 percent are seeing reduced employee commitment, compared with 23 percent of higher-pressure organizations.

Organizations need to sustain this performance over time. Research shows that investing in employee health and well-being is a major driver of sustained performance and productivity. It has the potential to create between $3.7 trillion and $11.7 trillion in economic value, equivalent to raising global GDP by between 4 and 12 percent.[36] Higher productivity and reduced "presenteeism"—that is, people being at work but not fully productive—are the main drivers of this value boost, with an estimated total opportunity of $2 trillion to $9 trillion. Hypertension, heart disease, and depression each cost US employers more than $300 per employee annually, with cardiovascular disease alone causing $156 billion in lost productivity.[37] Untreated insomnia adds roughly $2,280 per affected employee each year due to absenteeism, reduced performance, and increased accidents.[38]

Benefits of getting it right

Organizations that invest equally in people, performance, and employee health develop talent and deliver top-tier financial returns in tandem. On the financial side, sustained high performance builds resilience, which delivers more consistent earnings relative to peers. That in turn brings stock market rewards. According to our research, organizations that focus on both people and performance (P&P organizations) are 4.3 times more likely than the average company to maintain top-tier financial performance for nine out of ten years and 1.5 times more likely to remain high performers over time. They have half the earnings volatility of peers and experience revenue growth that is twice as fast as that of companies that focused purely on performance during the pandemic.[39]

On the talent side, employees of these organizations report higher job satisfaction and are thus more likely to stay with their employers and deliver better payoffs. Prioritizing meaningful employee experiences and cultural alignment creates an environment that attracts and retains high performers. P&P winners are talent magnets, with attrition about 5 percent lower than that of purely performance-driven companies. Their employees are also 1.3 times more likely to move into higher lifetime earnings brackets than workers at purely performance-driven companies.

P&P organizations ultimately achieve higher returns on human and organizational capital investment, achieving about 30 percent higher revenue growth than peers for every dollar they invest in human and organizational capital.

On the flip side, organizations with disengaged employees have problems implementing successful performance initiatives such as process improvements, incentives, and AI adoption. Disengaged employees are not just a symptom; they pose a critical performance risk. When performance is declining, disengagement is

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35 Aaron De Smet, Bonnie Dowling, Marino Mugayar-Baldocchi, and Bill Schaninger, "'Great Attrition' or 'Great Attraction'? The choice is yours," *McKinsey Quarterly*, September 8, 2021.
36 Jacqueline Brassey, Lars Hartenstein, Barbara Jeffery, and Patrick Simon, *Working nine to thrive*, McKinsey, March 2024.
37 See for example, Ron Goetzel et al., "Health, absence, disability, and presenteeism cost estimates of certain physical and mental health conditions affecting U.S. employers," *Journal of Occupational and Environmental Medicine*, April 20, Volume 46, Number 4; Salim Virani et al., "Heart disease and stroke statistics—2020 update: A report from the American Heart Association," *Circulation*, January 2020, Volume 141, Number 9; "About the division for heart disease and stroke prevention," National Center for Chronic Disease Prevention and Health Promotion, US Centers for Disease Control and Prevention, September 16, 2024.
38 *Thriving workplaces: How employers can improve productivity and change lives*, World Economic Forum in collaboration with McKinsey Health Institute, January 2025; see also Ronald Kessler et al., "Insomnia and the performance of US workers: Results from the America insomnia survey," *Sleep*, September 2011, Volume 34, Number 9.
39 "Performance through people: Transforming human capital into competitive advantage," McKinsey Global Institute, February 2, 2023.

4.3×

Increased likelihood that organizations focusing on both people and performance will maintain top-tier financial performance for nine out of ten years

58%

Share of surveyed leaders in low-ambition organizations citing disengaged employees as a major barrier

50%

Share of millennials citing limited career progression opportunities as a concern

64%

Share of respondents who consider that linking individual goals to organizational goals is the key to improving performance

top of mind: 58 percent of surveyed leaders in low-ambition organizations cite disengaged employees as a major barrier, compared with 31 percent in organizations where employees are motivated to aim higher.

Issues to address

Many organizations make the mistake of focusing purely on performance and fall short on developing people. Others focus heavily on human capital development but fail to translate talent into strong financial performance. Survey respondents say the top barriers to building a holistic high-performance culture are limited career progression opportunities (47 percent), a lack of targeted incentives (43 percent), disengaged employees (38 percent), and rigid performance management systems (38 percent).

Limited career progression opportunities are particularly pressing for younger employees, who require clear development pathways: 50 percent of millennials report this as a concern versus just 38 percent of baby boomers. Industries with highly structured hierarchies, such as banking (49 percent), advanced industries (50 percent), and energy and materials (48 percent) report elevated concern, while public sector (38 percent) and education (42 percent) are comparatively lower.

McKinsey research has found that 72 percent of employees cite goal setting as a strong motivator.[40] Organizations that fail to provide targeted incentives risk lower employee motivation, engagement, and retention. Desire for targeted incentives is particularly high (45 percent) among younger leaders (millennials and Gen Zers) versus 31 percent of baby boomers.

Finally, rigid performance-management systems are a significant barrier to high performance. Traditional systems that focus on past outcomes and fail to adapt to changing priorities hinder growth, limit skill development, and leave employees feeling constrained—but leaders with declining performance continue to lean on these traditional systems. The majority of respondents (64 percent) believe that linking individual goals to organizational goals is the key to improving performance. Ongoing feedback works: One recent McKinsey survey found that 77 percent of employees who had regular development conversations felt motivated, versus just 21 percent who didn't have such discussions.[41] The same survey found that manager capability also matters: Nearly 25 percent of employees reported their managers lack the skills to conduct effective performance reviews.

Finding the right formula

Several priority measures contribute to consistent outperformance:

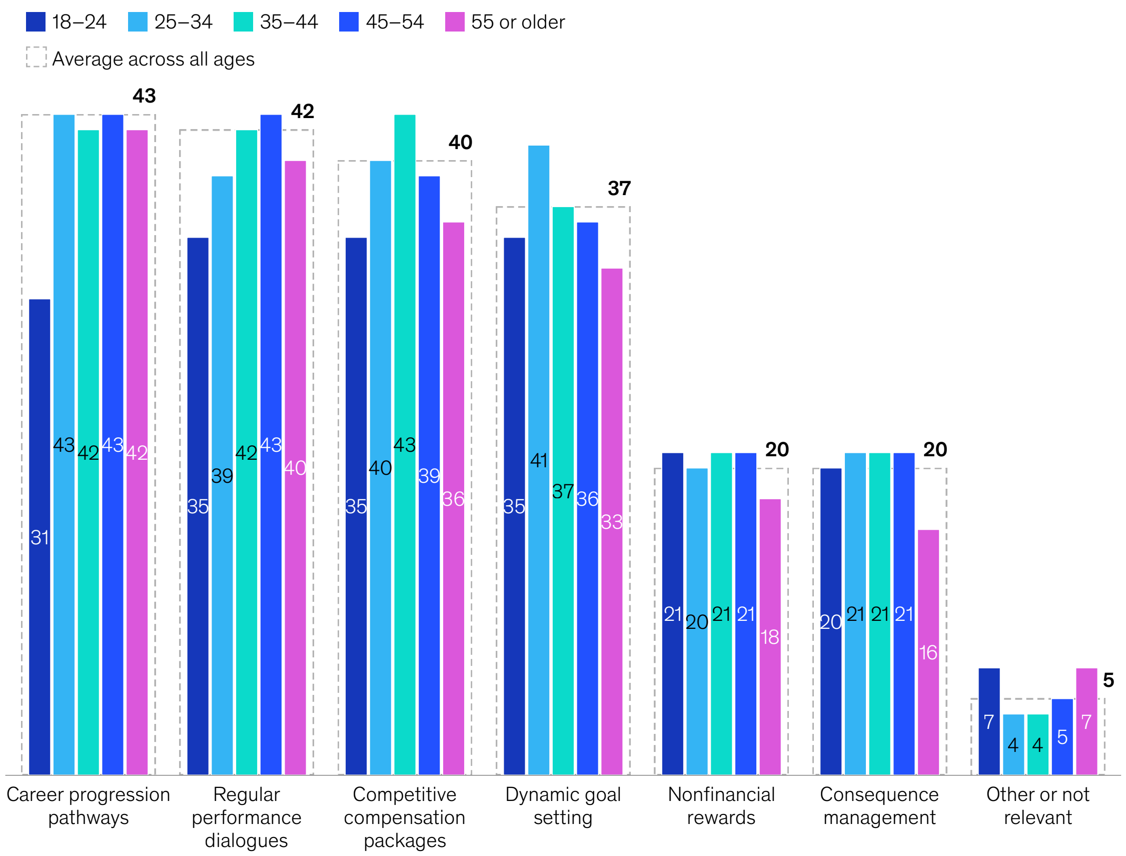
Build a culture that puts equal weight on employee performance and well-being
The goal here is to ensure employees feel energized rather than contained. High performers who sustain their performance over time are driven by purpose, adaptability, and recovery routines, not just rewards.[42] Yet only 20 percent of today's leaders believe nonfinancial rewards meaningfully boost performance, leaving most companies

40 "What employees say matters most to motivate performance," McKinsey, August 21, 2024.
41 "What employees say matters most to motivate performance," McKinsey, August 21, 2024.
42 *Thriving workplaces: How employers can improve productivity and change lives*, World Economic Forum in collaboration with McKinsey Health Institute, January 2025.

Exhibit 13

Respondents cited career progression pathways and regular performance dialogues as top ways to boost employee performance.

Ways to improve performance among employees who mostly engage in knowledge work by age, % of respondents (n = 10,018)



Note: Respondents were asked how they believe they can improve performance among employees who mostly engage in knowledge work.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

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underinvested in human motivation (Exhibit 13). According to our survey, 43 percent of leaders still lean on career progression, 40 percent on pay, and 42 percent on performance dialogues as their main levers. Organizations need to support their high performers with intrinsic motivators and the right corporate culture. Critically, leaders need to model the right behavior and create autonomy, employee involvement, and bottom-up innovation.

Modernize performance measurement

Performance is becoming more difficult to measure because of the increasing share of knowledge work driven by technological disruptions and the use of AI. Traditional performance management rewards past outcomes, ignores AI-powered work, and often stifles skill development. Leaders need to shift from annual ratings to dynamic, transparent goal setting and equip managers to coach in real time. We found that 46 percent of leaders in improving organizations use dynamic goals versus 33 percent in organizations with declining performance. In an increasingly AI-driven world, leaders need to design systems in which human accountability and agent speed reinforce one another rather than clash. This requires redefining metrics to recognize both human contribution and agent output. Transparent ownership of outcomes, fair incentives for agent-orchestrator roles, and manager capability-building will be crucial. Future-ready leaders set clear expectations about which decisions and results remain owned by humans, reinforcing a sense of purpose and accountability even as agents handle more execution.

Invest in employee interventions to make performance sustainable

To sustain high performance, organizations need to integrate wellness interventions into their core strategies. They should put equal weight on performance and employee health.

By taking a structured, data-informed approach, organizations can realize measurable performance gains, resilience, and holistic employee well-being. This approach includes diagnosing the current state of employee health, prioritizing high-impact interventions, piloting and designing scalable solutions, and delivering these interventions across the organization with the support of leadership alignment, cultural shifts, ongoing measurement, and continuous improvement.

SARAH ARMSTRONG OF ROLLS-ROYCE ON GAINING AN EDGE THROUGH PERFORMANCE MANAGEMENT

'If you want to change the performance management of the business, you've got to change the whole system, not just one piece of it.'

Rolls-Royce plc, the storied British aerospace, defense, and power systems company, has been undergoing a large-scale transformation program designed to raise its overall performance. The program has a major organizational component as the company seeks to make efficiency gains, simplify how it operates, and strengthen accountability. Sarah Armstrong, the company's chief people officer, sat down with McKinsey's Damian Klingler to discuss a new approach to holistic performance management that is at the core of the company's transformation.

Sarah Armstrong has served as Rolls-Royce's chief people officer since January 2022. She has more than 30 years of experience in senior HR leadership roles, including 20 years at the company. Throughout her career, she has been instrumental in enabling companies to develop organizational and leadership capability, talent management, improved employee engagement, and strategic change management. Prior to Rolls-Royce, Sarah spent 13 years working for GEC and Marconi, where she held a range of HR roles in both the United Kingdom and the United States.

Organizations are starting to think differently about performance management. How have you set up your performance-management approach to that new reality?

In the transformation work that we've been doing, one of the fundamental shifts is to a performance management that is both holistic and rigorous. You have to look at all aspects of financial performance, operational performance, and the people elements of performance and make sure that you've got a consistent approach. Across the enterprise, everyone needs to see what we are working toward and what success looks like. They then need to make the connection with how it looks to them in their job, either in a business or a function.

Where are you in that process?

We are still on that journey. In the past 12 months, there's been a lot of focus on how leaders enable understanding. We need to make sure it is getting through the organization. It has to be a very holistic approach. If you want to change the performance management of the business, you've got to change the whole system, not just one piece of it.

What does that process look like? It sounds like you have different leadership development for each stage of leadership.

We started with very senior leadership and cascaded that through the next levels. We enabled that with communication materials and tool kits and said, now go talk to your team. Our top 100 helped develop the strategic priorities. Then, at the beginning of this year, we took the whole leadership population in detail through what these strategic priorities are—what good looks like, what we are measuring against, and where we potentially have some gaps.

We also have a group of employees that we call our change makers. There are over 1,000. They are volunteers who want to help drive change, and they've played a really key role here as well. They've been working alongside leaders to talk to teams to say, do you understand what winning looks like? How do the strategic priorities give us options, and how actually is

‘We gifted shares to all employees. . . . We’ve tried to find ways to demonstrate that we are giving back and that, if Rolls-Royce wins, all employees win.’

SARAH ARMSTRONG

everything you’re doing enabling us to get there? They do it on top of their jobs—they are on the ground, driving that message through.

How has performance management changed?

It has fundamentally shifted in the past three years, but that shift has been controlled. Just under three years into our transformation, financial performance, operational performance, and people aspects are now managed in a consistent and standard way with data underpinning them.

To use an example from the people world, we embedded a new enterprise talent system. So now, talent identification development and acquisition is all done against a consistent enterprise approach, a framework that’s taken probably two years to really embed. Now it’s here, and it applies to everything. For instance, when we implemented our new leadership expectations earlier this year, they showed up in all the talent systems, the recruitment system, and so on.

How do you drive high performance but at the same time make sure that employees still feel supported and motivated?

You have to know that you are putting pressure into the system because you are raising expectations around high performance. So you have to balance that. We’ve got a new listening strategy. It’s about keeping an eye on broader measures, including well-being measures and ethics cases, disciplinary cases, those types of metrics. It’s about making sure we’ve got a real feel for employee sentiment. We have regular conversations as an executive team about employee sentiment and how the organization is coping with the increased performance expectations from the transformation. We do quarterly reviews by business, with a deep dive into the feeling on the ground.

What were the challenges along the way in creating such a high-performance culture?

In a big organization, you’ve got an existing culture and established ways of working. And if you want to drive change, you need to think about how you shift mindset and behavior. That was quite a big challenge that we’ve taken our time to work through. In our first year of transformation, we didn’t change our organizational values and behaviors or our purpose. We took the view that we needed to look at what really needed to change before we decided what behavioral shift we wanted to see. We engaged the whole organization in that process to enable that. It was a bottom-up, top-down process where we asked, what’s working today? What’s not working? What do you think we should retain, and what should we let go of to enable us to establish new purpose and new behaviors.

In an organization with a large employee base and which is starting to see an improvement in financial performance, another big challenge was where to invest back in the organization so that employees feel they are winning with you.

How did you tackle that challenge?

We gifted shares to all employees. We said these will vest in 12 months if we’re successful. We’ve tried to find ways to demonstrate that we are giving back and that, if Rolls-Royce wins, all employees win.

How did you equip your leaders to apply the new management approach?

We've done a lot of work on where we needed to bring new capabilities in. So we've had a lot of change in our leadership population. We changed our leadership behaviors and expectations twice in the past three years. And alongside that, we updated our leadership development. Then we assessed all of our top leadership population to understand as a collective leadership group where we were doing well and where we have gaps. We used that to update and renew our leadership expectations, which we launched in January 2025.

So we upped the bar again, and those expectations have gone through to every level of leadership from the first-time leader all the way up, and the leadership training that we do at all levels has also been shifted to those expectations.

What have been the tangible outcomes to date?

We're obviously seeing it through the financial performance, and we're also seeing huge benefits in operational metrics. We have driven efficiency and simplification through our transformation program. We have been taking layers out of our organization. We have put clearer accountabilities in place. We have reduced duplication.

One of the ways we measure outcomes is through an annual engagement survey, which we've just run. We've seen big improvements around understanding strategic connection but also around understanding the importance of safety in the organization. Eighty-two percent now say that the strategy is clearly articulated, ten points higher than last year; 88 percent say they get regular updates on performance, up four points. So you've got the financial measures that demonstrate success. You've got overarching operational performance and delivery to the customer. And then you've got some of those softer metrics that show how it actually feels to employees. All of those things are coming together.

> **'We're [seeing tangible outcomes] through the financial performance, and we're also seeing huge benefits in operational metrics. We have driven efficiency and simplification through our transformation program.'**

SARAH ARMSTRONG

Sharpening the focus on diversity and inclusion

While the landscape for diversity and inclusion is shifting, organizations across the globe remain committed to their efforts and continue to report D&I metrics as a strategic priority that improves outcomes for the business, leads to better performance, and contributes to competitiveness. In an increasingly complex stakeholder environment, organizations are sharpening their focus on assessing what is working and refining their approaches to deliver meaningful impact.

Survey highlights

- Ninety percent of global leaders continue to see D&I as a priority, and 81 percent of organizations are maintaining or expanding their D&I efforts.
- Even in North America, which has seen the most significant policy changes, only 16 percent say D&I is not a priority for their organizations right now.
- Nearly half of those who scaled back their D&I efforts expect to bring them back to at least some extent in the next one to two years, signaling potential reevaluation rather than outright retreat.
- Major challenges to advancing D&I are lack of measurable outcomes (cited by 30 percent), competing priorities (29 percent), and the polarized social and political climate (27 percent).

What's changing?

In 2025, amid shifts in political support for D&I efforts in some countries, organizations began rethinking their stance on the issue. But D&I continues to be a priority for an overwhelming majority (90 percent) of the 10,000 global leaders we surveyed. In fact, 46 percent of organizations report D&I as a strategic priority, integrated into long-term goals and plans, and 26 percent call it an operational priority with specific initiatives underway, signaling widespread recognition of its role in long-term performance.

Globally, four in five organizations are maintaining or expanding their D&I efforts, recognizing them as a strategic driver of innovation and long-term business resilience. Some regional differences emerge from the survey: While 83 percent of organizations in Europe and 84 percent in Asia–Pacific are maintaining or expanding their D&I efforts, the figure was lower (75 percent) in North America, where D&I policies are most in the spotlight. But even in North America, only 16 percent of respondents report that D&I is not a priority for their organization right now.

Globally, 16 percent of organizations scaled back D&I initiatives over the past year but often to redirect rather than halt them altogether. A majority of this group—11 percent of all organizations—paused some efforts while continuing others, highlighting a more nuanced view of how organizations are evaluating the issue. Among the organizations scaling back their programs, 40 percent globally and 48 percent in North America cited the changing sociopolitical environment as their reason for doing so.

Other reasons given for scaling back include a lack of measurable outcomes (29 percent of organizations) and competing priorities (28 percent). But nearly half (45 percent) of those who scaled back their D&I efforts expect to bring them back to at least some extent in the next one to two years, showing a potential reevaluation of efforts rather than an outright retreat.

Globally, four in five organizations are maintaining or expanding their D&I efforts, recognizing them as a strategic driver of innovation and long-term business resilience.

Benefits of getting it right

Robust and effective D&I strategies improve the performance of both people and business outcomes.[43] McKinsey research has shown that these strategies increase access to talent; improve the performance, experience, and retention of talent; and deliver higher innovation and enhanced customer experience.[44]

About 40 percent of survey respondents said their D&I efforts improved employee engagement and well-being as well as helped attract and retain talent (Exhibit 14). The efforts also created a stronger organizational culture and sense of belonging. This matters: When employees have a strong sense of belonging, we see a 56 percent improvement in job performance and a 50 percent drop in turnover risk.[45] Employees are 47 percent more likely to stay with an organization and seven times more likely to report their organization is high-performing if it is seen as inclusive.[46]

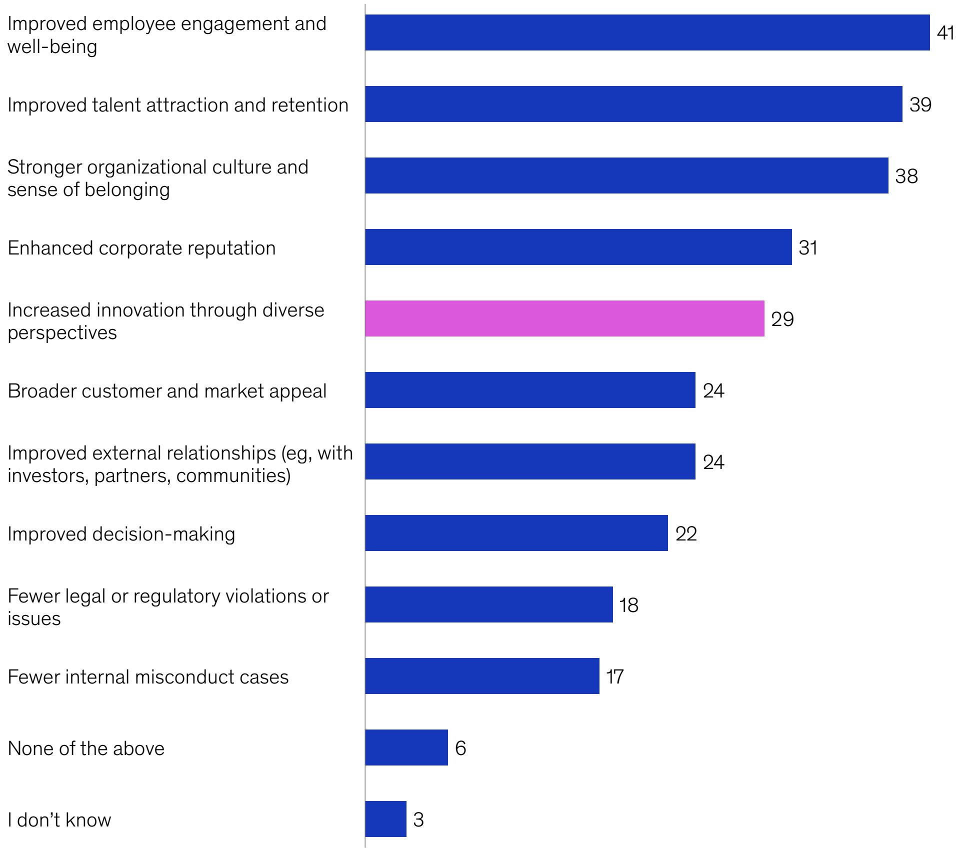
Organizations with diverse perspectives are also better positioned to drive innovation and make faster, more effective decisions. Nearly 30 percent of organizations surveyed report their organization has benefited from increased innovation in the workplace and improved decision-making (22 percent) as a result of their D&I efforts.

There are stakeholder benefits, too, including for customers and investors. One in four organizations (24 percent) report that prioritizing D&I initiatives leads to broader customer and market appeal, while 31 percent say these initiatives enhance corporate reputation and 24 percent say it improves external relationships with investors, partners, communities, and others.

Exhibit 14

Nearly 30 percent of survey respondents agreed that diverse perspectives increase innovation in the workplace.

Organizational benefits from prioritizing diversity and inclusion (D&I),
% of respondents (n = 9,472)



Note: Respondents were asked to identify the benefits their organizations have observed from prioritizing D&I.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

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43 Sundiatu Dixon-Fyle, Kevin Dolan, Dame Vivian Hunt, and Sara Prince, *Diversity wins: How inclusion matters*, McKinsey, May 2020.
44 *Diversity matters even more: The case for holistic impact*, McKinsey, December 5, 2023.
45 Evan W. Carr et al., "The value of belonging at work," *Harvard Business Review*, December 16, 2019.
46 *People & Organization Blog*, "Insights to guide organizations in 2021, part 3," blog entry by Diana Ellsworth, Drew Goldstein, and Laura London, McKinsey, January 21, 2021.

Issues to address

Survey respondents say that major challenges to advancing D&I include lack of measurable outcomes (cited by 30 percent of leaders), competing priorities (29 percent), and the polarized social and political climate (27 percent).

It is critical to sharpen the focus and be clear on the challenges to be addressed, the intended improvements, and the desired outcomes from D&I efforts. Accurate measurements of the impact of initiatives can inform the organization's stakeholders.

Organizations need to be careful with approaches that could lead to misperceptions and diminished trust of the objectives and methodology of the initiatives. These include symbolic actions, such as statements or celebrations of historical months without clearly laying out an outcome-driven strategy, or focusing too much on increasing representation instead of emphasizing balanced, merit-based decision-making.

Nuanced communication plays an important role in an organization's approach to issues that may have polarized interpretations—for example, setting the expectation that the organization is committed to upholding inclusion while avoiding language or programs that could alienate some populations.

Finding the right formula

We continue to see that making real progress on D&I is challenging. To achieve better outcomes requires intentional and strategic effort to make the necessary structural, behavioral, and programmatic changes in an organization. Leaders need to continue to embed D&I into the fabric of their organizations by linking efforts to broader strategic initiatives, from inclusive hiring to equitable growth opportunities and debiased decision-making. This ensures that efforts are not one-time initiatives but rather mark a shift in the organization's operating model. Ways to achieve this include the following:

Track impact
Every priority should have metrics to enable the organization to track impact and prioritize offerings that are working and deprioritize those that are not. An example of this could be measuring behavior change among participants as a result of inclusive capability-building programs, and adjusting or stopping programs if outcomes do not change.

Identify systemic challenges
Broadening recruitment outreach, blind hiring, transparent succession planning, pay equity, and equitable care-leave policies are examples of systemwide changes and standards that can serve as powerful signals. Thirty-eight percent of survey respondents state that their organizations are embedding D&I into talent systems, including for sourcing, hiring, and promotions, and 39 percent are prioritizing pay equity within their D&I strategies. A similar proportion is prioritizing flexible work and leave policies.

Foster a workplace of belonging and inclusion
This can be done by developing programming and initiatives that work for a range of employees. They need to be accessible to all, align with broader strategic priorities, and focus on developing a culture of belonging. Many organizations are already trying to do this: 40 percent of survey respondents are focused on fostering inclusion and belonging, and 35 percent are focused on inclusion-related capability building, such as inclusive leadership.

Prepare for the impact of tech disruption
Automation, AI, and technological disruption may affect D&I efforts. Without intentional governance and thoughtful planning, automation in key processes such as hiring, interviewing, performance reviews, and learning and development could wipe out existing gains. Yet these same technologies also offer an opportunity to design fairer, more inclusive systems that actively reduce existing inequities in people processes. By pairing responsible innovation with thoughtful reskilling as skills and labor markets evolve, organizations can help ensure that technology not only avoids harm but also helps build a more inclusive and empowering future of work.

Despite a shifting landscape, organizations remain committed to D&I and cite it as critical to long-term performance and resilience. Continued progress and success will depend on embedding inclusion into strategy, measuring impact, and fostering a culture of belonging. Additionally, as skills needs evolve and technology reshapes the workplace, organizations that pair innovation with thoughtful reskilling can transform disruption into an opportunity for more inclusive, dynamic, and enduring growth.

Reinventing leadership: Leading from the inside out

As leaders seek to balance multiple pressures, including geopolitical uncertainty, AI disruption, demographic shifts, and climate change, they need to take an "inside out" approach focusing on personal growth. That's a reflection of the two intertwined dimensions of leadership today—the idea that leading others also means leading oneself. Individuals, teams, and organizations need to redefine leadership in more human-centric terms, with leaders reflecting on the "why" to inspire meaningful change.[47]

Survey highlights

Respondents say the main benefits of adopting human-centric leadership practices are increased employee satisfaction and retention (56 percent), strengthened trust (56 percent), improved decision-making (42 percent), and greater organizational adaptability and resilience (40 percent).

Leaders who self-identify as more reflective are more confident in their organization's ability to adapt than peers (30 percent), and 49 percent say they have clear visibility on their organization's must-win battles.

Primary challenges in creating a psychologically safe work environment are time pressure (47 percent), fear of failure or judgment (42 percent), hierarchical organizational culture (38 percent), and unclear expectations (38 percent).

47 Dana Maor, Hans-Werner Kaas, Kurt Strovink, and Ramesh Srinivasan, *The Journey of Leadership: How CEOs Learn to Lead from the Inside Out*, Portfolio/Penguin Group, 2024.

What's changing?

In an era of geopolitical tension, rapid technological change, and demographic shifts, the role of organizational leaders has never been more critical. They need new qualities to navigate an increasingly complex, high-stakes world. It's not just a world of external change: Change is happening within organizations, too, as work itself is redefined and people seek meaning, connection, and opportunities to learn and renew. What's called for is "human-centric" leadership practices—that is, embedding human-centric behaviors such as humility, vulnerability, empathy, resilience, versatility, and caring into the leadership approach to operate from a higher state of awareness.

In that vein, old models of simply focusing on earnings, demanding results, and exercising command-and-control leadership are giving way to approaches that prioritize self-awareness, psychological safety, deep listening, and inclusivity. Leadership today is as much an inner journey as an outer one. Leaders need to both deliver results and rediscover purpose in enabling others to grow.

Competing demands—and there are many, at times seemingly irreconcilable—need to be balanced with courage and humility. For example, leaders need to deliver value in the short term through proven strategies at the same time as investing in the long term through R&D. They are also expected to blend traditional command through structured hierarchies with collaboration in empowered networks, or embrace both shorter-term shareholder value and long-term sustainable values. On a personal level, it means that leaders need to show up more fully and acknowledge their own human imperfections—while simultaneously remaining consummate professionals. This new reality calls for leaders to balance strength with compassion, professionalism with authenticity, and confidence with vulnerability. Doing so means leading through learning, experimenting, reflecting, and adjusting rather than relying solely on past success.

As workforces increasingly combine AI agents and human workers, human-centric leadership becomes even more important. The next frontier of leadership is about cultivating inner motivation—the willingness to continuously relearn new skills and content while learning new ways of working and being.

Benefits of getting it right

Past McKinsey research shows that successful leadership development doubles the success rate of organizational transformations.[48]

Leaders who embark on an inside-out journey of personal growth focus first on leading themselves through self-reflection, self-awareness, and human-centric leadership. Decisive and empathetic leaders navigate volatility while seizing opportunities for reinvention and growth. This improves their ability to lead their teams and organization, which in turn drives innovation and organizational performance. They are better able to recognize when to intervene and clearer about the right configuration of teams. They foster trust and inspire teams to be bolder in their goals and actions.

Old models of simply focusing on earnings, demanding results, and exercising command-and-control leadership are giving way to approaches that prioritize self-awareness, psychological safety, deep listening, and inclusivity.

48 Bob Sternfels, Daniel Pacthod, Kurt Strovink, and Wyman Howard, "The art of 21st-century leadership: From succession planning to building a leadership factory," McKinsey, October 22, 2024.

Leaders say that the top organizational results from adopting human-centric leadership practices are increased employee satisfaction and retention (56 percent), strengthened trust (56 percent), improved decision-making (42 percent), and greater organizational adaptability and resilience (40 percent).

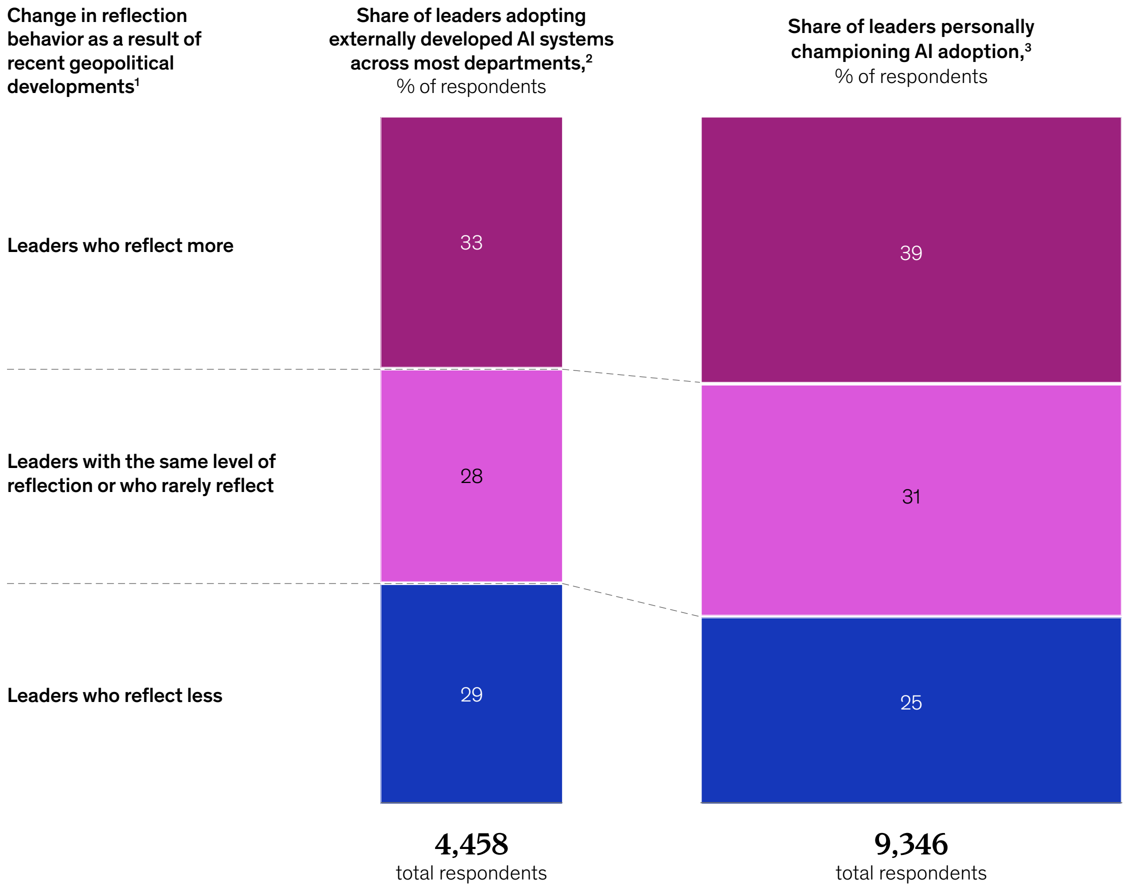
Our survey revealed a distinction between leaders who said they recently became more reflective, those who kept the same level of reflection or reflect rarely, and those who find their level of reflection irrelevant. Leaders who self-identified as more reflective showed a greater awareness of what is happening in the broader environment, a sharper focus on and greater confidence in navigating recent changes, and more active leadership of the AI disruption. In other words, reflection alone will not make a difference, but acting mindfully will. Fearless learning turns reflection into action, enabling leaders and teams to learn from mistakes, share insights openly, and turn uncertainty into progress.

Specifically, reflective leaders are more attuned to external forces and feel stronger performance pressure. More than one in five (22 percent) say that geopolitical shifts are significantly affecting their organizations, compared with 10 percent of leaders whose level of reflection has remained steady and 4 percent of leaders who reflect less, while 74 percent feel pressure to deliver further productivity gains (versus 61 percent and 54 percent). At the same time, these reflective leaders are more confident in their organization's ability to adapt (30 percent versus 18 percent of those who reflect rarely and 17 percent of leaders who reflect less), and 49 percent say they have clear visibility on their organization's must-win battles (versus 25 percent and 21 percent).

As shown in Exhibit 15, one-third of reflective leaders report adopting externally developed AI systems across most departments (versus 28 percent of steady, 29 percent of those who reflect less), and 61 percent personally champion AI adoption (versus 53 percent and 43 percent).

Exhibit 15

Reflective leaders are more likely to adopt externally developed AI systems across departments and to champion AI adoption.



[1]Question: How often do you reflect on and redefine your purpose as a leader nowadays as a result of recent geopolitical developments?
[2]Question: To what extent has your organization adopted externally developed AI systems (eg, ChatGPT, Gemini, Microsoft Copilot, Meta AI) in day-to-day operations across functions?
[3]Question: How actively do leaders champion AI adoption and foster a culture of experimentation?
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

McKinsey & Company

Issues to address

At the individual level, leaders who fail to engage in an inside-out approach risk falling into reactive decision-making, undermining their ability to lead with clarity and purpose. This is particularly critical as organizations flatten hierarchies and reduce the number of middle-management roles.

At the team level, asked about primary challenges they face in creating a psychologically safe work environment, leaders identified similar sets of challenges: time pressure (47 percent), fear of failure or judgment (42 percent), hierarchical organizational culture (38 percent), and unclear expectations (38 percent). Across all of these challenges, leaders who are more reflective emphasized the challenges more than their less-reflective peers.

At the organizational level, leaders need to create an overall working environment in which people feel safe to actively participate and lead the creation of agentic organizations—that is, address people's concerns around AI adoption, including issues relating to intellectual property, license to fail fast and learn, and worries about job losses.

Finding the right formula

The reinvention of leadership is a priority not just for individuals but also for teams and organizations. The common thread across all levels is "fearless" learning. Leaders who learn openly, model curiosity, and help their organizations do the same will define the next era of human-centered leadership.

Among survey participants, two in five leaders reflect on their purpose as leaders at least on a weekly basis, while two-thirds reflect at least monthly. Looking at the demographics, we see that Gen Z respondents are entering leadership with a stronger appetite for daily alignment than their older peers.

Individuals: Start with a personal learning journey and cultivate space for contemplation and reflection
The goal here is for leaders to get to know themselves better and embrace their own imperfections, fears, and traumas. That will enable them to show up fully, in a human-centric sense.

Leaders need to be able to recognize when they fall back into reactive patterns and learn how to shift quickly from reactive back to a creative state of mind to take actions that foster growth and collaboration. They also need to reflect deeply on their personal "why" so they can inspire meaningful change.

Teams: Focus on building high-performing teams as the primary unit where impact happens
Teams are where the most meaningful work often gets done—so it's essential to create a safe environment in which team members support and hold each other accountable for showing up differently. This type of environment enables continued improvement through experimentation, especially with AI, even if not all the answers are clear.

Organizations: Create human-centric leadership capacity across the organization
The notion of human-centric leadership needs to cascade through the organization. It can unleash decision-making velocity as the operating model evolves.

47%

Share of leaders citing time pressure as a primary challenge in creating a psychologically safe work environment

40%

Share of leaders who reflect on their purpose as leaders at least on a weekly basis

56%

Share of leaders reporting increased employee satisfaction and retention as a main organizational benefit from adopting human-centric leadership

CHARISE LE OF SCHNEIDER ELECTRIC ON REDEFINING LEADERSHIP

‘Great leadership starts with self-awareness, and that’s a lifelong practice.’

Schneider Electric, the global energy technology leader with 160,000 employees and one million partners in more than 100 countries, is in the midst of a cultural evolution that seeks to break silos and move toward more collective leadership. As part of that process, Schneider is placing a major emphasis on leadership behavior, including openness, empathy, and the ability to have difficult conversations. Charise Le, Schneider’s chief human resources officer, explains to McKinsey’s Damian Klingler how the group is seeking to redefine leadership.

Charise Le has been chief human resources officer at Schneider Electric since April 2020. She brings a global and regional perspective to shaping the company and its culture. Since joining Schneider in 2007, Charise has held roles spanning HR business partnership, people strategy, and the global HR services organization. Her experiences have exposed her to many cultures, creating her approach: Put people first, don’t shy away from tough calls, and do fewer things but do them well.

What was the context of your leadership journey at Schneider?

We are building the next cycle of our journey, to 2030. Despite our size and complexity, we have learned to change adaptively based on the needs of our customers, markets, and communities. This new shift is a cultural transformation toward a more human-centric culture. We have defined what we want to change and what we don’t want to change. And where we want to change is to be more performance-driven, with more simplicity and speed.

In this context, how are you refining the leadership approach within Schneider?

We want our leaders to invent, transform, and own the company of the future. The first thing was to connect everything with the business transformation. Then we defined the target culture that we want and came up with a code that has an explicit set of expectations for leaders to invent the future, deliver the mission together, and build great teams. The focus is on how leaders enable trusted decision-making.

What is the essence of this?

We are breaking silos and talking more and more about collective leadership. The way we work should be more mission-based, where the customer is the mission, we operate as one team, and we apply rituals to anchor how we collaborate across functions and domains. This approach will move us beyond hierarchy into more-collaborative practices.

All of this means that we are making culture a lived experience. It can’t just be on paper. It needs to be an ecosystem that includes how we develop people, how we nominate people, how we manage and recognize performance, how we take feedback. All the people practices and policies are built around our “IMPACT” values—inclusion, mastery, purpose, action, curiosity, and teamwork—which are the foundation of the leaders’ code. We need to ensure that leadership is visible and actionable at every level.

The starting point is our CEO being very vocal about the commitment to change how we work. Then it cascades down to the top leaders in the company and on from there. We had workshops to help leaders engage their teams, with the HR team helping to facilitate all these conversations.

What are you doing specifically in regard to instilling human-centric leadership?

The author John Naisbitt talked about leaders needing to balance "high tech and high touch." That's really the foundation we believe in, as it can sustain all the changes, especially when everything around you feels confusing, complex, or uncertain. What keeps people grounded is trust, belonging, and engagement, rooted in our values of inclusion and teamwork. This is what we want to see more from our leaders.

We truly believe that everyone should bring their full self to work, that no one is left behind. What are the practices that make that possible? I think it's important to select the right leaders and then make sure the leaders we select are empowered to put that philosophy into practice. While the business result is important, we make it super clear that behavior is equally important. That is embedded in our performance evaluation systems.

What does that mean in practice?

We want to intentionally create a safe environment for open conversations. We don't expect leaders to have all the answers, but they need to be comfortable saying, "I don't know." Great teams are built when leaders bring in and grow people whose skills and knowledge exceed their own in specific domains.

You need openness to build trust and empathy and make it easier to connect on the human level. The consistent feedback we receive from people who join the group from outside is that the leaders here are open, transparent, and humble.

Last but not least, it's also about how we develop our leaders. Our training programs help our leaders reflect on how you build behavior, how you develop skills, and also how you create the best environment for your team—for example, ways to build trust with the team when you get straightforward feedback on your leadership style and practice.

How do you manage and encourage self-reflection and self-awareness among leaders?

Leadership begins with the individual, and self-awareness is the foundation of leading effectively. We believe being a leader is more than a title; it's about influence and growth at every level. To encourage self-reflection and self-awareness, we embed it into our culture, systems, and practices.

I'll give you some concrete examples. Part of our performance evaluation system every year is the question of how my actions mirror our values and what we stand for. You have to do a self-assessment and have that conversation with your manager. We make upward feedback a continuous practice, so as a leader, every year, I receive an integrated report giving me feedback on my behavior and how my teams see me. You look at those comments, and sometimes it's uncomfortable. But just having this conversation is very important professionally and, to some extent, personally.

We also provide coaching—including an AI leadership coach. It's a pilot, already deployed, and we are going to extend it to more leaders. We've been getting very positive feedback.

Ultimately, we believe that great leadership starts with self-awareness, and that's a lifelong practice.

Tell me a bit more about your AI leadership coach.

It's personalized both to the individual and to Schneider's language, values, impact leaders' code, and people priorities. You can use any language because sometimes people feel more comfortable if they can use their native language. And then, it's very personalized to each leader as they work through their challenges, skills they want to build, or behaviors to enhance. I chatted with it in Mandarin, and it works perfectly. You upload your evaluation and your feedback, and it gives personalized recommendations and advice, or answers questions, in a safe environment.

How are you preparing the leaders in your organization to successfully operate in such a diverse environment?

We operate in more than 100 countries, and there are more generations in the workforce today than ever. One fundamental expectation is for our leaders to build diverse teams. The more difficult part is the "software"—how you make it work. It's about the lived experience of bringing together different backgrounds and ways of thinking to solve problems.

We have put in place a very structured system to empower local leaders with autonomous and deep market insights. It really does work across borders and time zones. The second thing is that leading across cultures and generations is embedded in our leadership training, and we provide some practical tools. Finally, we collect a lot of data points from our people in continuous listening surveys. We slice and dice the data by different segments, generations, cultures, and so on to make meaningful decisions on engagement actions. It's very much about intentionally listening to our people.

What tangible benefits are you getting from doing all of this?

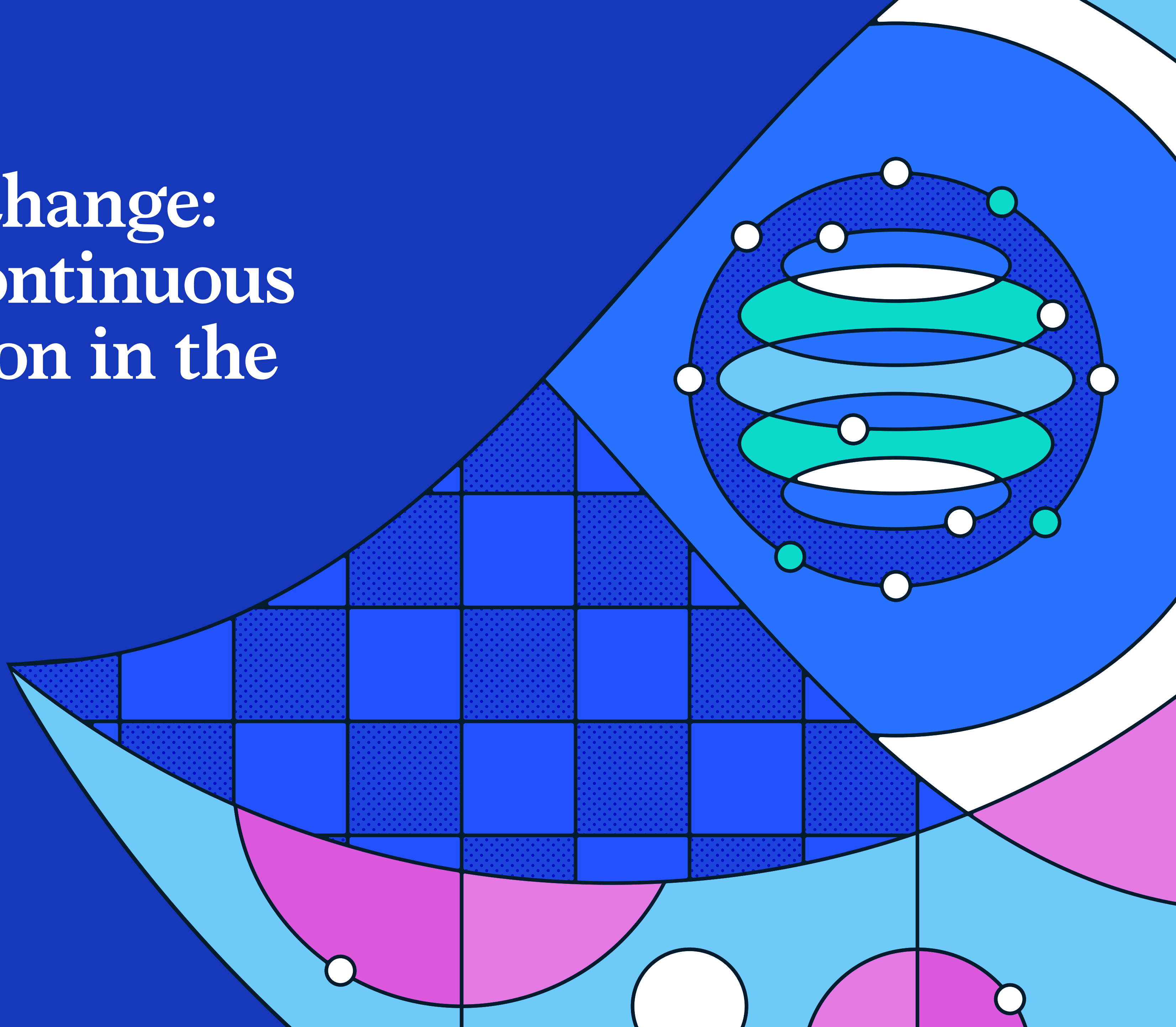
Sixty-three percent of our employees are shareholders of Schneider, and this number continues to grow. That's a demonstration of people's confidence in the future of our company. And then there are the business results. At the end of the day, everything we are doing needs to translate into outcome for our business. This is quite visible from our last cycle.

What have been some of the challenges along your journey?

One challenge is that you can't change a culture overnight. It takes time. And it's important to consider not just the short term but also the long term. We are sending a message to our leaders that they still need to deliver the short-term performance, but we also need long-term innovation and growth. We are encouraging them to embrace experimentation and risk-taking. Everything starts from the clarity of what we expect. In our code for leaders, we specifically mention the leaders' role in creating the future of the company.

> 'We don't expect leaders to have all the answers, but they need to be comfortable saying, "I don't know." Great teams are built when leaders bring in and grow people whose skills and knowledge exceed their own in specific domains.'
>
> CHARISE LE

Business as change: Managing continuous transformation in the organization



Each of the nine themes we described in the previous chapter is affecting organizations in 2026, in some cases to a considerable extent. Each in its own way implies a significant degree of change—not only for organizations and the people who lead them but also for the people who work in them and for the societies in which they operate. That's the nature of tectonic shifts: They move the Earth underneath you.

In all likelihood, organizations won't tackle all nine themes simultaneously. Yet, taken together, the changes that are needed are so substantial that leaders looking to tackle them will need to rethink the very way they approach change.

Four major implications for organizational change-management strategies emerge from these challenges:

1. Change is continuous, not episodic

Transformation is no longer a one-off event. When the Earth moves, you need to move with it. To succeed, organizations will have to build the capability to keep changing. They need to embrace transformation not as a future state but as a permanent condition.[49] The old days of launching a big change program and then returning to "business as usual" are over; the new normal is "business as change." Change management is not just about making a specific change but about building capacity to change, to recover, and to adapt. Ultimately, this is about resilience—about bouncing forward continuously.

2. People, behavior, and culture remain central

While a variety of forces are bringing about change, including technology and the external environment, change management fundamentally is about people and behaviors. Successful change management has to be people-first, outcome-oriented, and evidence-led. Leaders play a vital role. They need to be mobilized as role models who engage, empower, and inspire the workforce. Change is systemic, affecting structure, processes, and technology, but it is also personal, affecting both mindsets and skill sets. Change management is thus not just a project. Rather, it is baked into how the organization manages talent and operations.

3. AI and technology change the shape of change management

Generative and agentic AI change both how people work and what they expect of their work. The arrival of AI agents is one example: If these agents are to be effective, they can't just be plugged into an organization like a piece of hardware; rather, human employees will need to engage with them to create a new collaborative hybrid. Consequently, typical change-management approaches need to be adapted. Instead of viewing gen AI as just another tool, leaders can think of it as a capability that requires rewiring how work gets done. Instead of simply rolling out this technology, leaders need to involve and encourage employees, helping them cocreate solutions that augment their human performance.[50]

4. Be clear about the target state and how to get there

One consistent feature of the interviews with leaders in this report is their emphasis on the need for clarity about where their journey is heading. Defining your North Star is fundamental to the change-management program that emerges. So much is changing, and the changes themselves will likely be uneven across the organization. Defining where you are heading is thus only the first of two steps. The second step is sequencing the changes. That can mean moving from pilot to scale, from top to bottom, or along any other chosen path. What matters is figuring out the sequencing and not assuming that everyone moves at the same pace.

Change is never simple. Ensuring resilience in the face of tectonic shifts requires thought, strategy, courage, and adaptability. For organizations, 2026 and beyond will be testing times—but rewarding ones for those who get it right.

49 *Development in the future of work: 2025 perspective on evolving trends in L&D*, McKinsey, 2025.
50 Erik Roth, "Reconfiguring work: Change management in the age of gen AI," QuantumBlack, AI by McKinsey, August 13, 2025.

TIFFANIE BOYD OF MCDONALD'S ON TRANSFORMING AN ICONIC GLOBAL ORGANIZATION

‘We knew that if we didn't have our leaders on board, it wasn't going to work.’

McDonald's, one of the most iconic global brands, is in the midst of a transformation program aimed at making the company faster and more efficient, among other goals. All the initiatives have major people implications. Tiffanie Boyd, global chief people officer at McDonald's, discussed the organizational changes underway and how they are playing out with McKinsey's Bryan Logan and Damian Klingler.

As McDonald's executive vice president and global chief people officer, Tiffanie Boyd is responsible for establishing the company's talent, organization, and culture strategies that deliver successful business outcomes. Tiffanie joined McDonald's in January 2021, where she most recently served as the senior vice president and chief people officer for McDonald's USA. Under her leadership, the US business reached record levels of restaurant crew retention, engagement, leadership training, and roster size. Before McDonald's, Tiffanie spent more than two decades at General Mills, spearheading HR transformation across key business units and driving culture and leadership development globally. She holds an MBA from the University of Michigan Ross School of Business and serves on the Sanger Leadership Center's advisory board at Ross. She lives in Chicago with her husband and two sons.

Can you describe the changes you have been leading at McDonald's?

McDonald's entrepreneurial spirit has always been one of the keys to our success. It's a company founded on a small business that became a big one, but it's also a big one that's made up of small ones, through our franchising model and our suppliers. We've run our business like a collection of small companies. Every market around the world had been empowered to make decisions separately, in the spirit of doing what was best for the day-to-day local business. That generated great performance for a long time, but the downside was that we were missing opportunities to take advantage of the scale of McDonald's. The autonomy we had given to every market meant, counterintuitively, that we weren't moving as fast as we could. If a problem has already been solved in one market, we should be able to leverage the solution in another. By working as one McDonald's, we're trying to work much faster and much more efficiently, which will create better experiences for our people and our customers. At the same time, we don't want to lose the entrepreneurial spirit that keeps us relevant with our customers and communities.

A big part of our transformation was about the legacy systems and tools that power how we operate; we had to change those. But this wasn't just about technology—it was more about changing our ways of working and how we connected people across the organization. We approached the transformation at an enterprise level with a prioritized plan for function-by-function impact and deployment. We started with our people function, changing the operating model, global processes, and technology. We have also tackled finance; procurement; data, analytics, and AI; and global business services, with additional work on the horizon. We've learned a lot about transformation—we're still in the middle of it.

You found a visual way to explain the changes. Tell us about that.

Our CEO had a great visual for this: a box of our World Famous French fries. We had to move from a box of fries standing up to a box knocked on its side, from vertical fries to horizontal fries. The fries represent our ways of working, moving from vertical silos to working horizontally, such as one function sharing solutions across markets and moving faster together. The visual has helped our organization think about partnership and collaboration.

How have you prepared the organization to drive these changes?

We realized that if we didn't have our leaders on board with what they needed to do differently, it wasn't going to work. We launched Accelerate, a development program now on its second iteration. It was designed to help our leaders build the skills to perform and transform at the same time. We piloted with the senior leadership team first, and 1,000 leaders have since been through it. There's also a focus on personal resilience and how people can develop their own leadership during times of change. The feedback we've received has been very positive—so much so that a year and a half later, we designed and rolled out Accelerate 2.0.

The other thing we realized was that it is harder to change when you are doing well, when there is no burning platform. We developed a set of cultural norms—new mantras to give the organization a vocabulary to activate new behaviors. For example, we adopted a "share and steal" mindset to encourage our teams to not reinvent the wheel every time but to just use what another market did. "Start with the problem" was designed to focus people on clarifying the problem to solve before doing work on something that may not be the real issue. "One McDonald's Way" is another mantra that is starting to catch on.

How did you communicate the change story to the broader organization?

The biggest thing that we have tried to reinforce is the opportunity for so many of these changes to make work easier. People were so encumbered with minutiae. They spent a lot of time managing spreadsheets, looking for documentation, or going to dozens of meetings on the same topic. We've tried to illustrate some of the pain points that exist so that people would say, "Yes, that's what I'm experiencing today." In the future, we'll have a system that you can go into and get your question answered. You'll have more clear decision rights and ability. We're still on that journey.

How has AI influenced the way you've managed the transformation?

AI is going to put more emphasis on human skills—trust, judgment, and empathy. We're uniquely positioned here: We've been in the people business for 70 years, with millions of touchpoints with customers every day. Our focus is on how we deploy AI to help people work smarter, better, and faster so they can then use their discretionary effort on the things that really require human touch and intellectual skills. There are some things that AI just can't do, and ultimately, it's the humans that have to manage the technology. We're leaning into that.

What lessons stand out from your transformation so far?

We were very conscious of having the right mix of people driving the transformation. That means people who are long-serving experts at McDonald's and those who have seen different parts of McDonald's with a broad perspective on how to get things done. At the same time, you need people who come from the outside who can show us what great looks like in other places.

Another important lesson is that while there are some short-term changes required to deliver outcomes, sustainable transformation generally happens over longer periods of time. That means you've got to take a longer view—continue to reinforce the behaviors you expect and drive accountability with leaders. You are going to make some decisions today, and you might not be there to see the full benefit. That's what great leaders do. They build the infrastructure in the systems to make it better for the people who follow.

Finally, don't forget the soft skills. Everybody's experiencing changes at work (and at home), so empathy and patience are important. To move forward, you have to meet people where they are and communicate with them in a way that allows them to be part of the journey.

How does this affect the McDonald’s culture?

When people say culture, they often think about how people feel about working here. Are they engaged? Do they like it? That’s interesting, but I also think about culture as all the day-to-day practices in the organization (for example, accountability or customer orientation). We’re working now to understand all of that in a more scientific way. Of all the organizational practices, which are the ones where we, McDonald’s, need to be really good? And importantly, how are we doing on those today? That will help us define the next level of change we need to create at McDonald’s.

> ‘While there are some short-term changes required to deliver outcomes, sustainable transformation generally happens over longer periods of time.
>
> That means you’ve got to take a longer view—continue to reinforce the behaviors you expect and drive accountability with leaders.’

TIFFANIE BOYD

Appendix

About the 2026 State of Organizations Survey

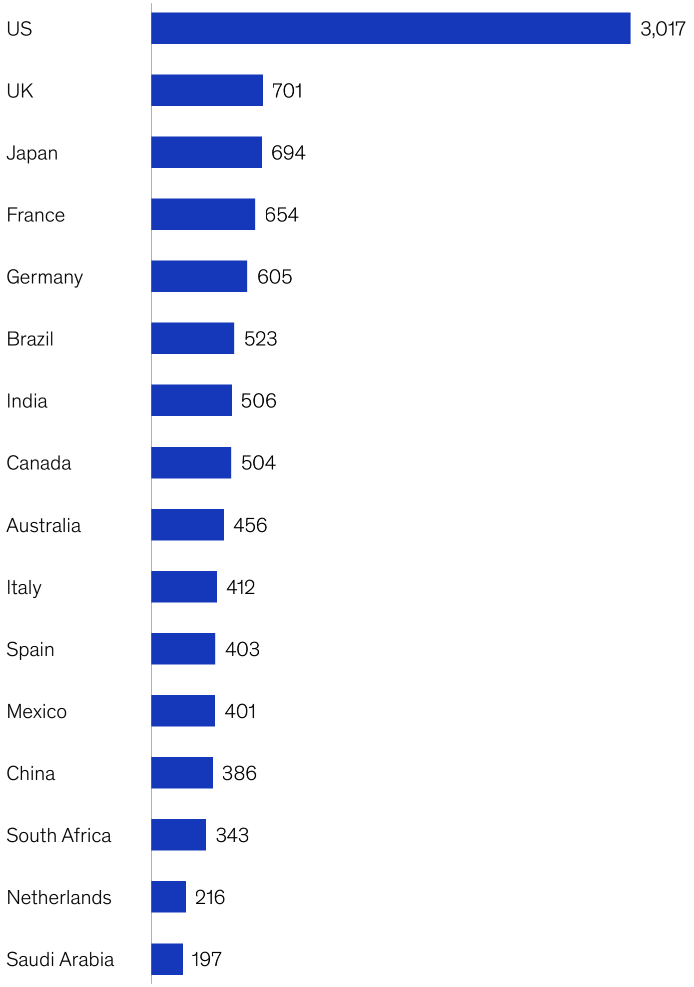
We compiled this report using data from the latest global McKinsey State of Organizations Survey and interviews with executives at leading organizations. Expert contributors have supplemented that information with existing McKinsey research and insights.

Methodology

The State of Organizations Survey was conducted from June to September 2025 and received responses from more than 10,000 organizational leaders worldwide. The respondents were leaders and managers from organizations with at least 1,000 employees, spanning 16 countries (Exhibit A1) and representing 17 industries (Exhibit A2).

Exhibit A1

Survey respondents spanned 16 countries.



Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

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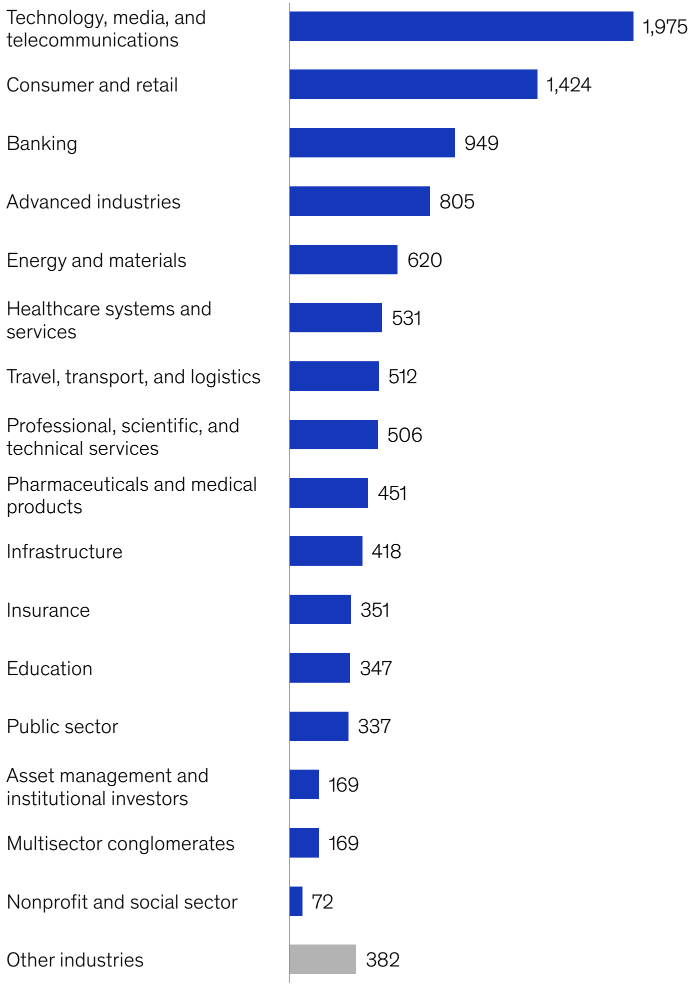
Exhibit A2

Survey respondents represented 17 industries.



Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

McKinsey & Company

We also asked respondents about the themes that are top of mind for them (Exhibit A3).

The data revealed a broad spectrum of top-of-mind themes among today's leaders, with technology disruptions, economic disruptions, and workforce shifts emerging as the top three. Themes centered on performance enhancement were particularly prominent—nearly half (43 percent) of leaders reported focusing on driving performance and creating value within their organizations.

Organization size:
- 1,001–5,000 people: 4,467
- 5,001–10,000 people: 2,011
- 10,001–30,000 people: 1,536
- 30,001–50,000 people: 574
- 50,001 or more people: 1,430

Seniority of respondents:
- Middle management: 5,703
- Top management (for example, directors or VPs): 3,250
- Executive team (for example, C-suite): 1,065

Age group:
- Gen Z (18–26): 270
- Millennial (27–42): 4,740
- Gen X (43–62): 4,765
- Baby boomer (63+): 243

Gender:
- Male: 7,180
- Female: 2,822
- Nonbinary: 6
- Prefer not to say: 10

Tenure in current organization (starting year):
- Prepandemic (before 2020): 6,186
- Pandemic (2020–22): 2,238
- Postpandemic (after 2023): 1,594

Exhibit A3

Survey respondents identified value creation, sustained excellence, and AI-enabled unlocks as top priorities for 2025.

Top organizational priorities for 2025, % of leaders identifying each organizational theme as a top priority (n = 10,018)

Note: Respondents were asked to select which themes are currently top of mind for them.
Source: McKinsey State of Organizations 2026 Survey, June to September 2025, n = 10,018

McKinsey & Company

Authors

Dana Maor
Senior Partner, Tel Aviv

Alexis Krivkovich
Senior Partner, San Francisco

Patrick Guggenberger
Partner, Vienna

Damian Klingler
Partner, Frankfurt

Michael Anzenhofer
Associate Partner, Munich

Amadeo Di Lodovico
Senior Partner, Dubai

Arne Gast
Senior Partner, Amsterdam

Barbara Jeffery
Partner, London

Brooke Weddle
Senior Partner, Washington, DC

Bryan Hancock
Partner, Washington, DC

Deepak Mahadevan
Partner, Brussels

Diana Ellsworth
Partner, Atlanta

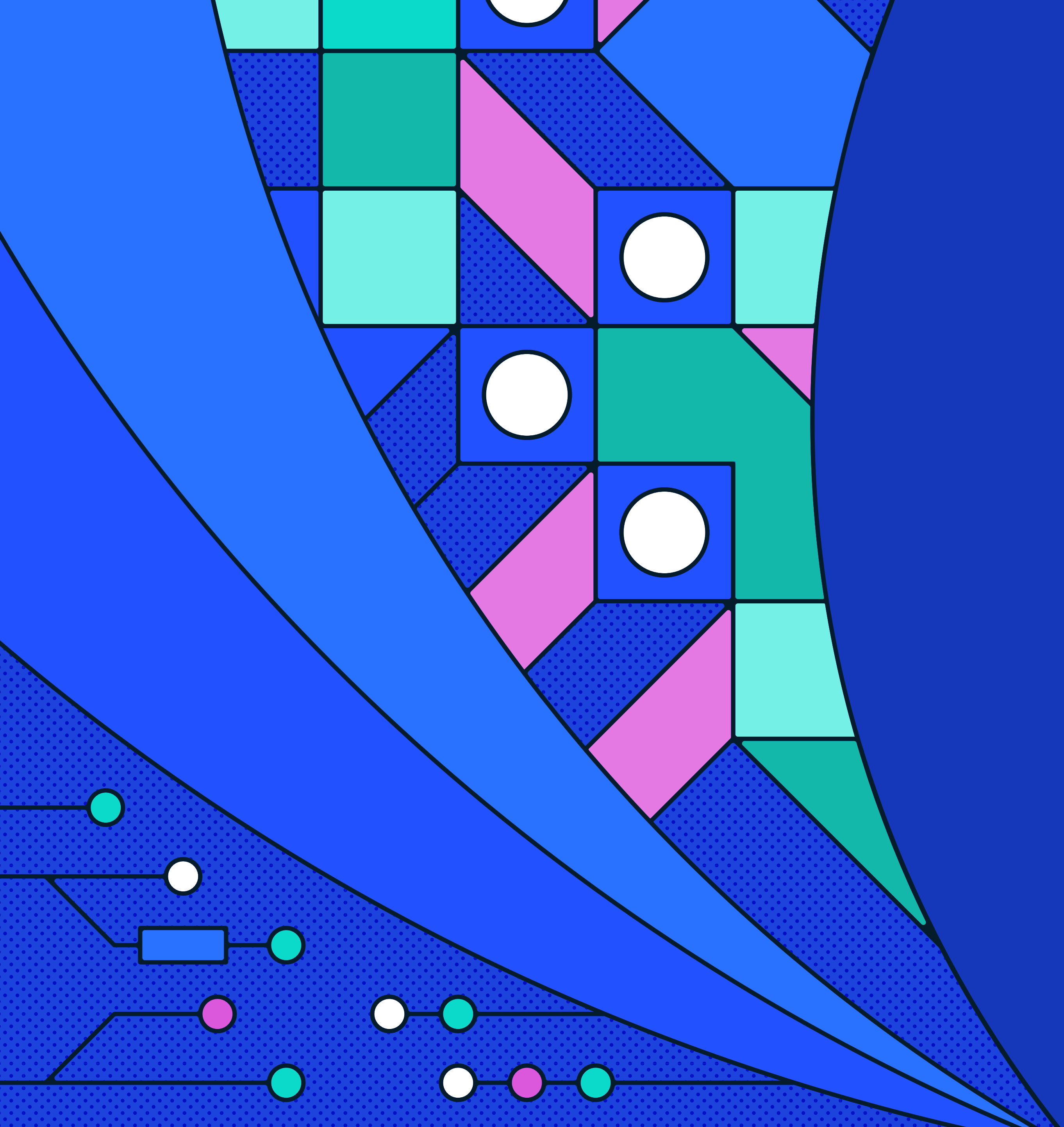
Heiko Heimes
Partner, Cologne

Liesje Meijknecht
Partner, Amsterdam

Ramesh Srinivasan
Senior Partner, New York

Sandra Durth
Partner, Cologne

Ulf Schrader
Senior Partner, Hamburg



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