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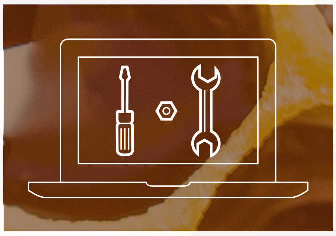
Culture and Change

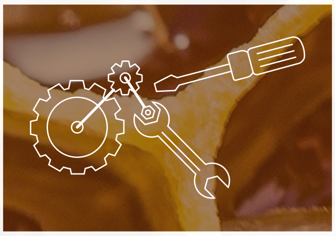
The four building blocks of change

Winning hearts and minds in the 21st century

How to beat the transformation odds



Digital transformation: three steps to success



Changing change management

Organization Practice November 2016

McKinsey On

Organization

Content

Introduction

"Progress is impossible without change, and those who cannot change minds cannot change anything."
– George Bernard Shaw

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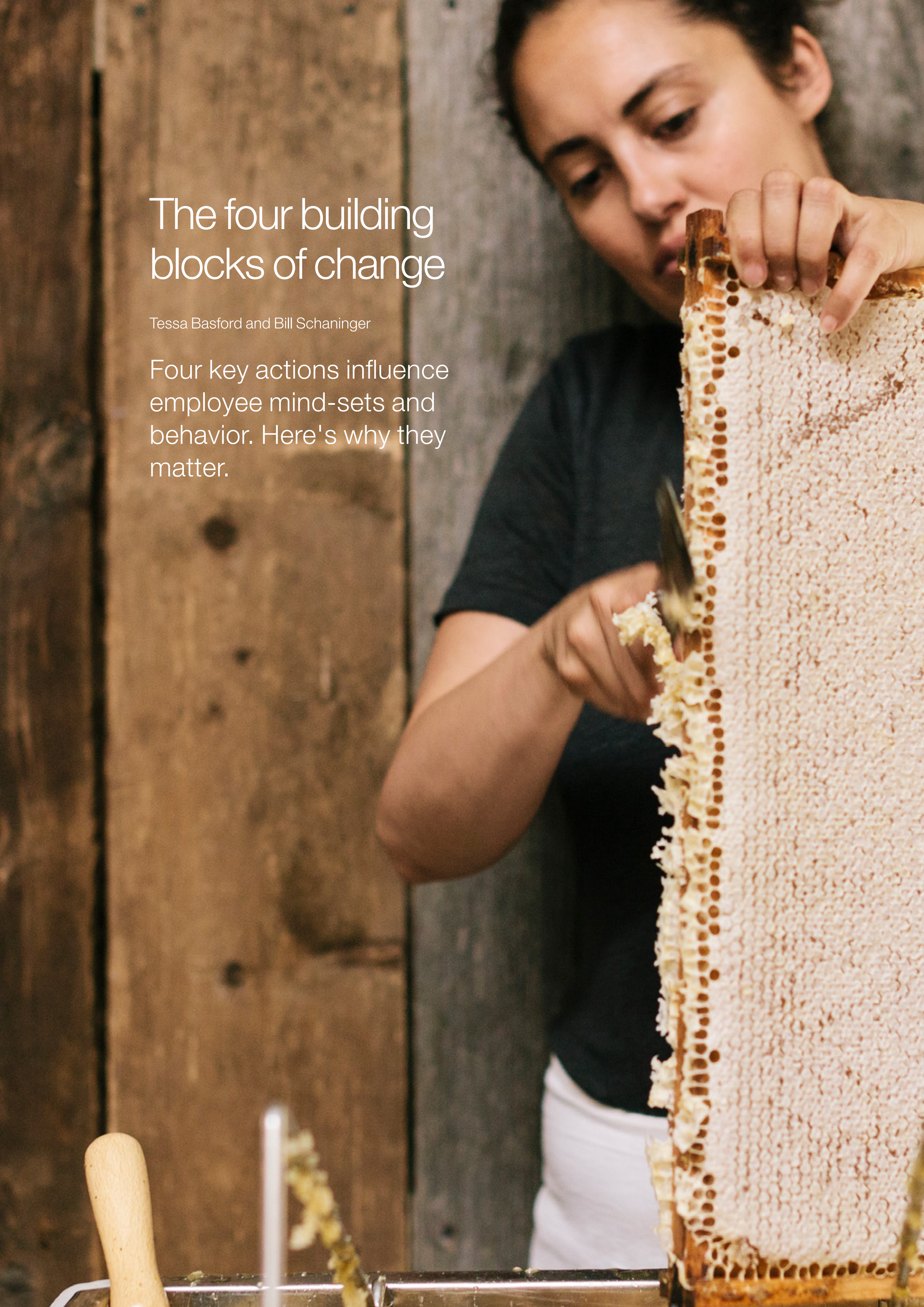
This third book focuses on the topic of Culture and Change. It presents actions that can be taken to influence employee mindsets and behavior. How should leaders consider new ways to shift the attitudes and behaviors of employees, to keep them engaged and embrace change? This book also provides a perspective on digital transformations and the ingredients to success. Finally it explores different forms to approach change within the organization.



The four building blocks of change

Tessa Basford and Bill Schaninger

Four key actions influence employee mind-sets and behavior. Here's why they matter.

Large-scale organizational change has always been difficult, and there's no shortage of research showing that a majority of transformations continue to fail. Today's dynamic environment adds an extra level of urgency and complexity. Companies must increasingly react to sudden shifts in the marketplace, to other external shocks, and to the imperatives of new business models. The stakes are higher than ever.

So what's to be done? In both research and practice, we find that transformations stand the best chance of success when they focus on four key actions to change mind-sets and behavior: fostering understanding and conviction, reinforcing changes through formal mechanisms, developing talent and skills, and role modeling. Collectively labeled the "influence model," these ideas were introduced more than a dozen years ago in a McKinsey Quarterly article, "The psychology of change management." They were based on academic research and practical experience – what we saw worked and what didn't.

Digital technologies and the changing nature of the workforce have created new opportunities and challenges for the influence model (for more on the relationship between those trends and the model, see this article's companion, "Winning hearts and minds in the 21st century," on McKinsey.com). But it still works overall, a decade and a half later (exhibit). In a recent McKinsey Global Survey, we examined successful transformations and found that they were nearly eight times more likely to use all four actions as opposed to just one.[1] Building both on classic and new academic research, the present article supplies a primer on the model and its four building blocks: what they are, how they work, and why they matter.

Fostering understanding and conviction

We know from research that human beings strive for congruence between their beliefs and their actions and experience dissonance when these are misaligned. Believing in the "why" behind a change can therefore inspire people to change their behavior. In practice, however, we find that many transformation leaders falsely assume that the "why" is clear to the broader organization and consequently fail to spend enough time communicating the rationale behind change efforts.

This common pitfall is predictable. Research shows that people frequently overestimate the extent to which others share their own attitudes, beliefs, and opinions – a tendency known as the false-consensus effect. Studies also highlight another contributing phenomenon, the "curse of knowledge": people find it difficult to imagine that others don't know something that they themselves do know. To illustrate this tendency, a Stanford study asked participants to tap out the rhythms of well-known songs and predict the likelihood that others would guess what they were. The tappers predicted that the listeners would identify half of the songs correctly; in reality, they did so less than 5 percent of the time.[2]

Therefore, in times of transformation, we recommend that leaders develop a change story that helps all stakeholders understand where the company is headed, why it is changing, and why this change is important. Building in a feedback loop to sense how the story is

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1 See "The science of organizational transformations," September 2015, McKinsey.com.

2 Chip Heath and Dan Heath, "The curse of knowledge," Harvard Business Review, December 2006, Volume 8, Number 6, hbr.org.

being received is also useful. These change stories not only help get out the message but also, recent research finds, serve as an effective influencing tool. Stories are particularly effective in selling brands.[3]

Even 15 years ago, at the time of the original article, digital advances were starting to make employees feel involved in transformations, allowing them to participate in shaping the direction of their companies. In 2006, for example, IBM used its intranet to conduct two 72-hour "jam sessions" to engage employees, clients, and other stakeholders in an online debate about business opportunities. No fewer than 150,000 visitors attended from 104 countries and 67 different companies, and there were 46,000 posts.[4] As we explain in "Winning hearts and minds in the 21st century," social and mobile technologies have since created a wide range of new opportunities to build the commitment of employees to change.

Reinforcing with formal mechanisms

Psychologists have long known that behavior often stems from direct association and reinforcement. Back in the 1920s, Ivan Pavlov's classical conditioning research showed how the repeated association between two stimuli – the sound of a bell and the delivery of food – eventually led dogs to salivate upon hearing the bell alone. Researchers later extended this work on conditioning to humans, demonstrating how children could learn to fear a rat when it was associated with a loud noise.[5] Of course, this conditioning isn't limited to negative associations or to animals. The perfume industry recognizes how the mere scent of someone you love can induce feelings of love and longing.

Reinforcement can also be conscious, shaped by the expected rewards and punishments associated with specific forms of behavior. B. F. Skinner's work on operant conditioning showed how pairing positive reinforcements such as food with desired behavior could be used, for example, to teach pigeons to play Ping-Pong. This concept, which isn't hard to grasp, is deeply embedded in organizations. Many people who have had commissions-based sales jobs will understand the point – being paid more for working harder can sometimes be a strong incentive.

Despite the importance of reinforcement, organizations often fail to use it correctly. In a seminal paper "On the folly of rewarding A, while hoping for B," management scholar Steven Kerr described numerous examples of organizational-reward systems that are misaligned with the desired behavior, which is therefore neglected.[6] Some of the paper's examples – such as the way university professors are rewarded for their research publications, while society expects them to be good teachers – are still relevant today. We ourselves have witnessed this phenomenon in a global refining organization facing market pressure. By squeezing maintenance expenditures and rewarding employees who cut them, the company in effect treated that part of the budget as a "super KPI." Yet at the same time, its stated objective was reliable maintenance.

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[3] Harrison Monarth, "The irresistible power of storytelling as a strategic business tool," Harvard Business Review, March 11, 2014, hbr.org.

[4] Icons of Progress, "A global innovation jam," ibm.com.

[5] John B. Watson and Rosalie Rayner, "Conditioned emotional reactions," Journal of Experimental Psychology, 1920, Volume 3, Number 1, pp. 1 - 14.

[6] Steven Kerr, "On the folly of rewarding A, while hoping for B," Academy of Management Journal, 1975, Volume 18, Number 4, pp. 769 - 83.

Even when organizations use money as a reinforcement correctly, they often delude themselves into thinking that it alone will suffice. Research examining the relationship between money and experienced happiness – moods and general well-being – suggests a law of diminishing returns. The relationship may disappear altogether after around $75,000, a much lower ceiling than most executives assume.[7]

Money isn't the only motivator, of course. Victor Vroom's classic research on expectancy theory explained how the tendency to behave in certain ways depends on the expectation that the effort will result in the desired kind of performance, that this performance will be rewarded, and that the reward will be desirable.[8] When a Middle Eastern telecommunications company recently examined performance drivers, it found that collaboration and purpose were more important than compensation (see "Ahead of the curve: The future of performance management," forth-coming on McKinsey.com). The company therefore moved from awarding minor individual bonuses for performance to celebrating how specific teams made a real difference in the lives of their customers. This move increased motivation while also saving the organization millions.

How these reinforcements are delivered also matters. It has long been clear that predictability makes them less effective; intermittent reinforcement provides a more powerful hook, as slot-machine operators have learned to their advantage. Further, people react negatively if they feel that reinforcements aren't distributed fairly. Research on equity theory describes how employees compare their job inputs and outcomes with reference-comparison targets, such as coworkers who have been promoted ahead of them or their own experiences at past jobs.[9] We therefore recommend that organizations neutralize compensation as a source of anxiety and instead focus on what really drives performance – such as collaboration and purpose, in the case of the Middle Eastern telecom company previously mentioned.

Developing talent and skills

Thankfully, you can teach an old dog new tricks. Human brains are not fixed; neuroscience research shows that they remain plastic well into adulthood. Illustrating this concept, scientific investigation has found that the brains of London taxi drivers, who spend years memorizing thousands of streets and local attractions, showed unique gray-matter volume differences in the hippocampus compared with the brains of other people. Research linked these differences to the taxi drivers' extraordinary special knowledge.[10]

Despite an amazing ability to learn new things, human beings all too often lack insight into what they need to know but don't. Biases, for example, can lead people to overlook their limitations and be overconfident of their abilities. Highlighting this point, studies have found that over 90 percent of US drivers rate themselves above average, nearly 70 percent of professors consider themselves in the top 25 percent for teaching ability, and 84 percent

[7] Belinda Luscombe, "Do we need USD 75,000 a year to be happy?" Time, September 6, 2010, time.com.

[8] Victor Vroom, Work and motivation, New York: John Wiley, 1964.

[9] J. S. Adams, "Inequity in social exchanges," Advances in Experimental Social Psychology, 1965, Volume 2, pp. 267 - 300.

of Frenchmen believe they are above-average lovers.[11] This self-serving bias can lead to blind spots, making people too confident about some of their abilities and unaware of what they need to learn. In the workplace, the "mum effect" – a proclivity to keep quiet about unpleasant, unfavorable messages – often compounds these self-serving tendencies.[12]

Even when people overcome such biases and actually want to improve, they can handicap themselves by doubting their ability to change. Classic psychological research by Martin Seligman and his colleagues explained how animals and people can fall into a state of learned helplessness – passive acceptance and resignation that develops as a result of repeated exposure to negative events perceived as unavoidable. The researchers found that dogs exposed to unavoidable shocks gave up trying to escape and, when later given an opportunity to do so, stayed put and accepted the shocks as inevitable.[13] Like animals, people who believe that developing new skills won't change a situation are more likely to be passive. You see this all around the economy – from employees who stop offering new ideas after earlier ones have been challenged to unemployed job seekers who give up looking for work after multiple rejections.

Instilling a sense of control and competence can promote an active effort to improve. As expectancy theory holds, people are more motivated to achieve their goals when they believe that greater individual effort will increase performance.[14] Fortunately, new technologies now give organizations more creative opportunities than ever to showcase examples of how that can actually happen.

Role modeling

Research tells us that role modeling occurs both unconsciously and consciously. Unconsciously, people often find themselves mimicking the emotions, behavior, speech patterns, expressions, and moods of others without even realizing that they are doing so. They also consciously align their own thinking and behavior with those of other people – to learn, to determine what's right, and sometimes just to fit in.

While role modeling is commonly associated with high-power leaders such as Abraham Lincoln and Bill Gates, it isn't limited to people in formal positions of authority. Smart organizations seeking to win their employees' support for major transformation efforts recognize that key opinion leaders may exert more influence than CEOs. Nor is role modeling limited to individuals. Everyone has the power to model roles, and groups of people may exert the most powerful influence of all. Robert Cialdini, a well-respected professor of psychology and marketing, examined the power of "social proof" – a mental shortcut people use to judge what is correct by

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[10] Eleanor Maguire, Katherine Woollett, and Hugo Spires, "London taxi drivers and bus drivers: A structural MRI and neuropsychological analysis," Hippocampus, 2006, Volume 16, pp. 1091 - 1101.

[11] The art of thinking clearly, "The overconfidence effect: Why you systematically overestimate your knowledge and abilities," blog entry by Rolf Dobelli, June 11, 2013, psychologytoday.com.

[12] Eliezer Yariv, "'Mum effect': Principals' reluctance to submit negative feedback," Journal of Managerial Psychology, 2006, Volume 21, Number 6, pp. 533 - 46.

[13] Martin Seligman and Steven Maier, "Failure to escape traumatic shock," Journal of Experimental Psychology, 1967, Volume 74, Number 1, pp. 1 - 9.

[14] Victor Vroom, Work and motivation, New York: John Wiley, 1964.

determining what others think is correct. No wonder TV shows have been using canned laughter for decades; believing that other people find a show funny makes us more likely to find it funny too.

Today's increasingly connected digital world provides more opportunities than ever to share information about how others think and behave. Ever found yourself swayed by the number of positive reviews on Yelp? Or perceiving a Twitter user with a million followers as more reputable than one with only a dozen? You're not imagining this. Users can now "buy followers" to help those users or their brands seem popular or even start trending.

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The endurance of the influence model shouldn't be surprising: powerful forces of human nature underlie it. More surprising, perhaps, is how often leaders still embark on large-scale change efforts without seriously focusing on building conviction or reinforcing it through formal mechanisms, the development of skills, and role modeling. While these priorities sound like common sense, it's easy to miss one or more of them amid the maelstrom of activity that often accompanies significant changes in organizational direction. Leaders should address these building blocks systematically because, as research and experience demonstrate, all four together make a bigger impact.

Tessa Basford is a consultant in McKinsey's Washington, DC, Office; Bill Schaninger is a director in the Philadelphia Office.

Exhibit – Companies can now influence people in new ways.

What's changed
Social networks allow companies to gauge the opinions of the group – but employees can also be easily swayed by the collective voice.

Role modeling
"I see my leaders, colleagues, and staff behaving differently."

What's changed
Technological advances and new channels facilitate more frequent and increasingly personalized communication.

Fostering understanding and conviction
"I understand what is being asked of me, and it makes sense."

"I will change my mind-set and behavior if …"

Developing talent and skills
"I have the skills and opportunities to behave in the new way."

What's changed
Digital platforms provide an opportunity for organizations to highlight – and celebrate – those who have acquired new knowledge and skills.

Reinforcing with formal mechanisms
"I see that our structures, processes, and systems support the changes I am being asked to make."

What's changed
The things that motivate millennials probably differ from what motivates more tenured employees – organizations may need to be more creative with rewards.

Winning hearts and minds in the 21st century

Tessa Basford and Bill Schaninger

Leaders must consider new ways to change the attitudes and behavior of employees.

The psychological contract that traditionally bound employees to their employers has been fraying. Many of today's workers, having experienced the pain of the economic downturn and large-scale layoffs, no longer feel as much loyalty and commitment to their organizations as they did even a decade ago. Job hopping has been described as the "new normal," and millennials are expected to hold 15 to 20 positions over the course of their working lives.[1]

Meanwhile, middle management – the executives who traditionally act as a conduit for communication from the top to the bottom of companies – has been hollowed out. So perhaps it's no surprise that in the face of these two trends, leaders struggle to get their employees to embrace big change programs. Rather than adapt to the demands of an organizational transformation, employees are more likely to resist passively, undermining the effort and spreading that contagion throughout the organization. Or they might simply decide that such a transformation isn't worth the risk and look for their next opportunity elsewhere.

To counter these problems, it's more important than ever for companies in transition to invest time and effort in changing the mind-sets and behavior of the workforce. Almost 15 years ago, we introduced the idea that four key actions could work together to support such initiatives: fostering understanding and conviction, reinforcing change through formal mechanisms, developing talent and skills, and modeling the new roles. New research has since reinforced the significance of these four priorities. (For more on that research and the influence model it supports, see this article's online companion, "The four building blocks of change," on McKinsey.com.)

The challenge for executives now is that they must learn to apply the model in new and imaginative ways that would not have been possible when we first published our research, at a time when the world was a very different place (exhibit). Back in 2003, the iPhone had yet to be released. There was no such thing as Facebook, much less Chatter, Twitter, or Yammer. The more fortunate millennials were off at college and still dreaming of the success they would eventually have from launching start-ups like Box or Instagram. Uber was just a German word. We rented movies at Blockbuster, drove around in Hummers, and read Newsweek – all of which have since folded.

Two key features of the modern workplace are particularly important in the context of change. One is the increasingly advanced technological and digital landscape, including mobile connectivity and social media, that has opened up exciting new possibilities for influence. The second is the new generation of millennial employees. On the surface, at least, they seem to have different needs and respond to change in ways that set them apart from their more tenured coworkers – though we'd echo our colleagues' view (see "Millennials: Burden, blessing, or both?," on McKinsey.com) that their attitudes, in some ways, reflect those of the workforce as a whole. In the face of these interrelated opportunities and challenges, here are some ideas on how to win hearts and minds in the modern era.

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[1] Jeanne Meister, "Job hopping is the 'new normal' for millennials: Three ways to prevent a human-resource nightmare," August 14, 2012, forbes.com.

New tools for influence

Digital advances can turbocharge efforts to foster understanding and conviction, thereby helping employees to feel more involved in change efforts and better able to play a role in shaping them. Consider, for example, how modern digital communications make it easy to personalize messages, tailoring them to the needs of individuals and delivering them directly to frontline employees. We take such personalized communications for granted, but they are significant in the context of major change efforts: they help to prevent a break in the cascade when a message trickles down from the CEO through middle management. For example, a global pharmaceutical company engaged in a major change program used its internal social-media platform in exactly this way, sharing different messages with different groups of users and ensuring that communications stayed relevant.

Technology also can help identify obstacles to change, such as overconfidence in your abilities or knowledge. Consider the popular FitBit and other activity trackers: these small devices provide an accurate (and sometimes surprising) picture of individual activity, expose the truth, and hold users accountable for their performance. Rapid-fire online-polling tools make it relatively straightforward to take an organization's pulse, identifying differences in outlook and understanding between top management and the rank and file. Research based on McKinsey's Organizational Health Index suggests that management frequently overestimates the impact of its messages on employees (for more, see "Why frontline workers are disengaged," on McKinsey.com).

More positively, leaders can use technology tools to celebrate skill building. For example, digital tools give organizations a creative way to show how increased effort (such as the adoption of new software or attendance at a training program) can improve performance. By profiling success stories on company Intranet pages and displaying training certificates and "badges" on Chatter and Yammer, organizations can instill a sense of control and competence that stimulates the improvement efforts of both individuals and teams.

Social platforms are more than just tools for communication and for building skills and a sense of community. They provide a sophisticated analysis that reinforces role modeling and builds up a momentum of influence. Over the past couple of years, we've seen a growing number of companies use social-networking analyses and similar techniques to help identify hidden influencers: people whose attitudes may command respect among their colleagues and whose role might be critical for the success of a change program. Having identified a few dozen influencers across regions, functions, and roles in this way, a large manufacturer we know enlisted the support of these employees to help communicate the changes it wanted to make, role-model the desired mind-sets and behavior, and fight skepticism.[2]

New employees, new challenges

Indeed, the power of the group may be the most potent influence of all. Today's increasingly connected digital world provides more opportunities than ever to share information about how others think and behave. Millennials typically take their cue from positive reviews on Instagram,

[2] Lili Duan, Emily Sheeren, and Leigh M. Weiss, "Tapping the power of hidden influencers," McKinsey Quarterly, March 2014, McKinsey.com.

SnapChat, or Yelp or from "Twitterati" with many followers. It's no surprise that users of social media can "buy followers," thereby boosting the popularity of a person or brand when it starts trending. Millennial workers, sometimes described as "hyperconnected globally," may be especially open to persuasion through the collective voice and expect real-time communication from everyone, not just top management.

The potential of technology to inspire action is good for would-be change agents, because today's employees are increasingly skeptical. A generic change story won't cut it now, if it ever did. To change hearts and minds, a story must be personally meaningful to the listener or reader. That's particularly true for today's younger employees. Recent interviews with hundreds of high-potential millennials, for example, revealed how, in many cases, their decisions to stay with or leave a company depended upon their ability to find meaning and purpose within it.

Technology's new transparency, though, can be a double-edged sword. In today's world, sites like Glassdoor take the mystery out of salaries and increased job mobility. That makes it easier than ever for employees to judge when they are unhappy with the direction of a company or decide that they are not getting an equitable deal. Remember, some twentysomethings recall how their own parents were mistreated in previous bouts of cost cutting, and many jaded older employees remain in the workforce. Organizations hoping to win over such employees need to do what's necessary to neutralize compensation as a source of anxiety and focus instead on what really matters. For some workers, extra flexibility and telework may be more alluring than a bigger paycheck. Leaders directing significant change efforts should look at all the formal reinforcing mechanisms at their disposal.

Finally, don't overlook skill building as a means of fostering commitment in the younger generation; millennials, after all, appear to be particularly hungry for opportunities to develop. The previously mentioned McKinsey research on this generation found many who were eager for advancement opportunities and receptive to various learning programs – from entrepreneurial challenges to more traditional rotational programs. In the past few years, organizations have started to tap into this mind-set, and some are exploring discounted education as an employee benefit. Starbucks's college achievement plan, for example, now pays tuition fees for part- and full-time workers taking Arizona State University's courses. Other organizations, such as Anthem and Fiat Chrysler Automobiles, have since launched similar programs.

Millennials may seem challenging. Yet their search – for diverse role models, meaning beyond a paycheck, equitable treatment in an increasingly transparent and transient world, and leading-edge skill building – is one that many employees, regardless of age, industry, or nationality, are undertaking today. Leaders who understand both the changing workforce and leading-edge digital tools and have a well-tuned grasp of the building blocks of organizational change should be well positioned to break through the noise and inspire these employees.

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How to beat the transformation odds

David Jacquement, Dana Maor, and Angelika Reich

Transformational change is still hard, according to a new survey. But a focus on communicating, leading by example, engaging employees, and continuously improving can triple the odds of success.

After years of McKinsey research on organizational transformations,[1] the results from our latest McKinsey Global Survey on the topic confirm a long-standing trend: few executives say their companies' transformations succeed.[2] Today, just 26 percent of respondents say the transformations they're most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time. In our 2012 survey, 20 percent of executives said the same.[3]

But some companies have beaten the odds. We asked respondents whether their organizations follow 24 specific actions that support five stages of a transformation.[4] At organizations that took a rigorous, action-oriented approach and completed their transformations (that is, all of their initiatives have been fully implemented), executives report a 79 percent success rate – three times the average for all transformations. According to the results, no single action explains the difference; in fact, the more actions an organization takes, the more likely its transformation is to succeed. Still, the results suggest that some transformation practices correlate much more closely than others with success. These practices include communicating effectively, leading actively, empowering employees, and creating an environment of continuous improvement so organizations can keep their performance from stagnating (or even regressing) once a transformation's goals are met.[5] By implementing continuous improvement activities that enable the organization to look regularly for new and better ways to work, respondents' organizations double their chance of successfully sustaining improvements after the transformation.

The power of action – and communication

To test which transformation practices correlate most with success, we asked executives about 24 specific actions that support a transformation's five stages (sidebar). Indeed, the results indicate that when organizations follow a rigorous approach and pursue all of these actions during a transformation, the overall success rate more than doubles from the average (26 percent), to 58 percent (Exhibit 1). Among only completed transformations, respondents report a success rate of 79 percent – about triple the average success rate for all transformations.

[1] See Javier Muñiz González-Blanch, Caroline Pung, and Marc Vinson, "Organizing for successful change management: A McKinsey Global Survey," July 2006; and Scott Keller, Mary Meaney, and Caroline Pung, "What successful transformations share: McKinsey Global Survey results," March 2010, mckinsey.com. We define transformations as large-scale efforts to achieve substantial, sustainable changes in performance, enabled by long-term shifts in the mind-sets, behaviors, and capabilities of employees.

[2] The online survey was in the field from November 11 to November 21, 2014, and garnered responses from 1,946 executives representing the full range of regions, industries, company sizes, functional specialties, and tenures. Of them, 1,713 executives have been part of at least one transformation in the past five years, at either their current or previous organization. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

[3] The 2012 online survey garnered responses from 2,301 executives representing the full range of industries, regions, titles, functions, and company sizes. Of them, 479 said their organizations' transformations successfully improved performance and equipped their organizations for sustained, long-term performance.

[4] We define the five stages, or the five "frames," of transformational change as setting goals (for both performance and organizational health), assessing organizational capabilities, designing the transformation initiatives, executing those initiatives, and sustaining the changes that were made. At companies that took action on all five frames, respondents report an overall transformation success rate of 72 percent. For more information, see Scott Keller and Colin Price, Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage, first edition, Hoboken, NJ: John Wiley & Sons, 2011.

[5] For more information on continuous improvement, see The lean management enterprise, January 2014, on mckinsey.com.

The 24 actions of transformation

In this survey, we asked executives about 24 practical actions that, in our experience, support the successful implementation of a transformation. Below are the specific actions in order of their impact (from greatest to least) on the likelihood of a transformation's success, according to the results.

- Senior managers communicated openly across the organization about the transformation's progress and success
- Everyone can see how his or her work relates to organization's vision
- Leaders role-modeled the behavior changes they were asking employees to make
- All personnel adapt their day-to-day capacity to changes in customer demand
- Senior managers communicated openly across the organization about the transformation's implications for individuals' day-to-day work
- Everyone is actively engaged in identifying errors before they reach customers
- Best practices are systematically identified, shared, and improved upon
- The organization develops its people so that they can surpass expectations for performance
- Managers know that their primary role is to lead and develop their teams
- Performance evaluations held initiative leaders accountable for their transformation contributions
- Leaders used a consistent change story to align organization around the transformation's goals
- Roles and responsibilities in the transformation were clearly defined
- All personnel are fully engaged in meeting their individual goals and targets
- Sufficient personnel were allocated to support initiative implementation
- Expectations for new behaviors were incorporated directly into annual performance reviews
- At every level of the organization, key roles for the transformation were held by employees who actively supported it
- Transformation goals were adapted for relevant employees at all levels of the organization
- Initiatives were led by line managers as part of their day-to-day responsibilities
- The organization assigned high-potential individuals to lead the transformation (e.g., giving them direct responsibility for initiatives)

- A capability-building program was designed to enable employees to meet transformation goals
- Teams start each day with a formal discussion about the previous day's results and current day's work
- A diagnostic tool helped quantify goals (e.g., for new mind-sets and behaviors, cultural changes, organizational agility) for the transformation's long-term sustainability
- Leaders of initiatives received change-leadership training during the transformation
- A dedicated organizing team (e.g., a project management or transformation office) centrally coordinated the transformation

While the results show that success links closely to a greater overall number of actions, they also indicate that not all 24 actions are created equal. Communication, specifically, contributes the most to a transformation's success (Exhibit 2). At companies where senior managers communicate openly and across the organization about the transformation's progress, respondents are 8.0 times as likely to report a successful transformation as those who say this communication doesn't happen. Good communication has an even greater effect at enterprise-wide transformations, where company-wide change efforts are 12.4 times more likely to be successful when senior managers communicate continually.

It also helps when leaders develop a clear change story that they share across the organization. This type of communication is not common practice, though. When asked what they would do differently if the transformation happened again, nearly half of respondents (and the largest share) wish their organizations had spent more time communicating a change story.

Lead, don't manage

According to respondents, leadership matters as much during a transformation as it does in the company's day-to-day work. It can't be delegated to a project-management office or central team – the presence (or not) of which has no clear bearing on a transformation's success – while executives carry on with business as usual. Indeed, when senior leaders role model the behavior changes they're asking employees make (by spending time on the factory floor or in the call center, where work is done), transformations are 5.3 times more likely to be successful (Exhibit 3). Success is twice as likely when senior leaders and the leaders of initiatives spend more than half of their time on the transformation. In practice, though, only 43 percent of these leaders say they invested that much working time in the transformation's initiatives.

But even if they're involved, senior leaders face some potential pitfalls. First is the perception gap between them and everyone else in the organization (Exhibit 4). Eighty-six percent of leaders say they role modeled the desired behavior changes when transformation initiatives were being implemented, yet only half of all employees who were part of the transformation (but didn't play an active role) say the same. Overall, senior leaders are also 2.5 times as likely as other employees to rate their companies' transformations a success.

A second pitfall, in addition to outsize optimism, is overplanning. Few initiative leaders – only 22 percent – say they would spend more time planning the transformation if they could do it over again. Instead, these respondents most often say they would spend more time communicating a change story (49 percent) and aligning their top team (47 percent).

Choose the right people and empower them

An involved team of senior leaders is only half the battle. Executives report that for transformations to truly succeed, companies must think about the role that employees play as well as their people needs across the organization. If the transformation happened again, the largest share of executives say they would move faster to keep people resistant to changes out of leadership or influencer roles.[6]

According to respondents, it's important to define clear roles so employees at all levels are prepared to meet the post-transformation goals – a factor that makes companies 3.8 times more likely to succeed (Exhibit 5). Also key to an effective people strategy is allocating enough employees and the right ones – that is, the high performers and active supporters – to work on the transformation. One effective way to hold these people accountable, according to the results, is using transformation-related metrics. Executives who say their initiatives' leaders were held accountable for their transformation work in annual evaluations are 3.9 times more likely than others to report a successful transformation.

Prepare for continuous improvement

Once initiatives are fully implemented, the change effort does not end; almost 40 percent of respondents say they wish they had spent more time thinking about how their organizations would continue to improve. Several specific practices that help companies connect strategy to daily work, deliver value more efficiently to customers, enable people to contribute to their best ability, and discover new ways of working all link to an organization's long-term health – and can keep companies from backsliding on performance gains and support continuous improvements after transformation.

For example, in organizations where people understand how their individual work supports the company's broader vision, executives are 5.5 times likelier than others to say the transformation has been successful (Exhibit 6). To achieve long-term success, that link must also be reinforced with a companywide commitment to identifying opportunities for improvement – a practice that more than quadruples the likelihood of success. Likewise, executives report a much higher rate of success when their companies have a systematic process for developing people's capabilities and for identifying, sharing, and improving upon best practices.

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[6] When asked what they would do if the transformation happened again, 44 percent say they would move faster to neutralize people resistant to change. An equal share say they would spend more time developing and communicating a change story, followed by 43 percent who say they would set clearer targets.

Of the eight continuous-improvement actions we asked about, one was an outlier: only one-third of executives say teams of employees begin their days discussing the previous day's results and the current day's work, compared with strong majorities of executives who agree that their organizations take each of the other actions. But respondents whose organizations had implemented daily discussions were twice as likely as others to report success.

Looking ahead

Focus on people, not the project. Transformations are about the people in the organization as much as they're about the initiatives. The long-term sustainability of a transformation requires companies to engage enthusiastic high-potential employees, equip them with skills, and hold them accountable for – as well as celebrate – their contributions to the effort. Companies should, in our experience, take the same steps toward developing people throughout the organization. To build broad ownership, leaders should encourage all employees to experiment with new ideas: starting small, taking risks, and adapting quickly in their work. Doing so can create far-reaching and positive support for change, which is essential to a transformation's success.

Communicate continually. When embarking on a transformation, executives should not underestimate the power of communication and role modeling. The results suggest that continually telling an engaging, tailored story about the changes that are under way – and being transparent about the transformation's implications – has substantially more impact on an effort's outcome than more programmatic elements, such as performance management or capability building. But the communication doesn't end once the change story has been told. Leaders must continually highlight progress and success to make sure the transformation is top of mind across the organization – and to reduce the gap between what employees believe is happening and what they see.

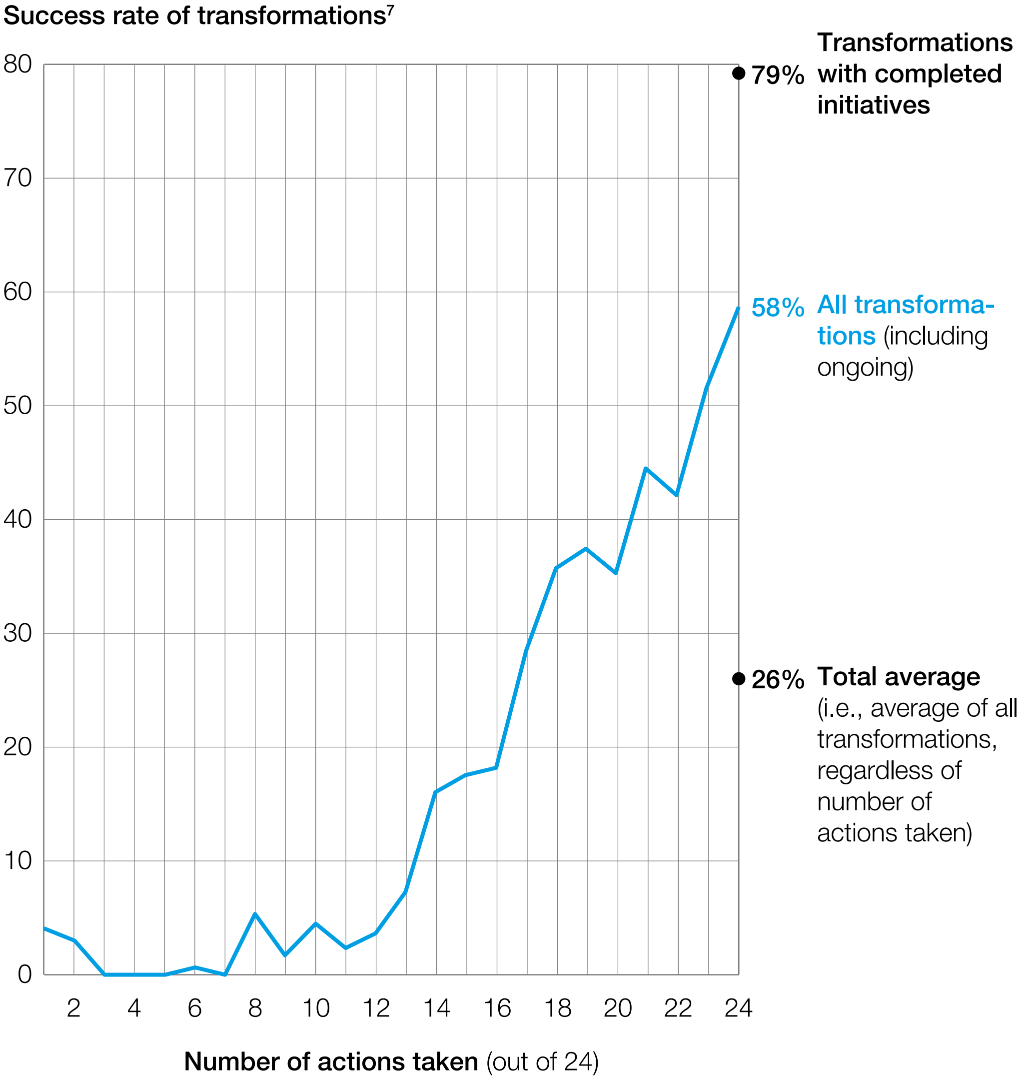
Take more action. Transformation is hard work, and the changes made during the transformation process must be sustained for the organization to keep improving. There is no silver bullet – and while some factors have more impact than others on a transformation's outcome, the real magic happens when these actions are pursued together. Overall, the survey indicates that the more actions an organization took to support each of the five stages of transformation, the more successful it was at improving performance and sustaining long-term health.

The contributors to the development and analysis of this survey include David Jacquemont, a principal in McKinsey's Paris office; Dana Maor, a principal in the Tel Aviv office; and Angelika Reich, an associate principal in the Zurich office.

They would like to acknowledge Erin Ghelber, Christian Johnson, and Kate VanAkin for their contributions to this work.

Exhibit 1 – When organizations follow a rigorous approach to transformation and take more actions, the overall success rate improves dramatically.

Percent of respondents at organizations pursuing given number of actions, total n = 1,713



[7] Respondents who report "success" say the transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

Exhibit 2 – Across all 24 transformation actions, communicating – especially about progress – links most closely with success.

Percent of respondents[8]

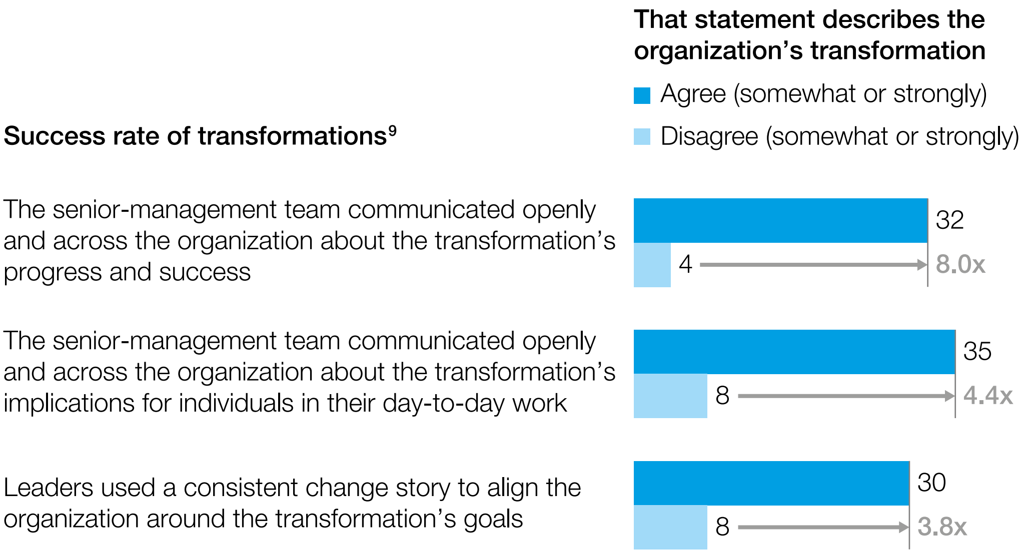


Exhibit 3 – Transformations are more likely to succeed when company leaders are active and involved.

Percent of respondents[8]

[8] Respondents who answered "don't know/not applicable" are not shown.

[9] Respondents who report "success" say the transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

[10] In a separate question from those asking about the 24 actions, respondents who identified themselves as senior leaders or leaders of transformation initiatives were asked how much of their overall time they spent working on the initiatives.

Exhibit 4 – Senior leaders are more positive than others about the rigor of their transformation efforts.

Percent of respondents, by role in the transformation

Respondents who agree (somewhat or strongly) with each statement about their organizations' transformations[11]

	Direct observers[12]	▸	Senior leaders
Leaders role modeled the behavior changes they were asking their employees to make	53	62%	86
The senior-management team communicated openly and across the organization about the transformation's implications for individuals in their day-to-day work	49	57%	77
The transformation goals were adapted for relevant employees at all levels of the organization	55	47%	81
Leaders used a consistent change story to align the organization around the transformation's goals	72	22%	88

[11] Respondents who answered "strongly disagree," "somewhat disagree," or "don't know/not applicable" are not shown.

[12] Employees who were part of the business, functional, or geographic unit affected by the transformation but who did not play an active role in the transformation initiatives.

Exhibit 5 – To engage employees in a transformation, companies must define roles and hold initiative leaders accountable.

Percent of respondents[13]

That statement describes the organization's transformation

- Agree (somewhat or strongly)
- Disagree (somewhat or strongly)

Success rate of transformations[14]

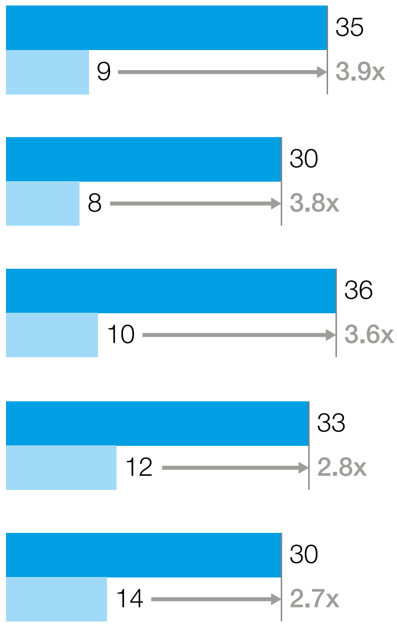
In their annual evaluations, initiative leaders were held accountable for their contributions to the transformation

Roles and responsibilities in the transformation were clearly defined

The organization allocated sufficient personnel to support the implementation of transformation initiatives

At every organizational level, key roles for the transformation were held by employees who actively supported it

The organization assigned high-potential employees or managers to lead the transformation



[13]Respondents who answered "strongly disagree," "somewhat disagree," or "don't know/not applicable" are not shown.

[14]Respondents who report "success" say the transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

Exhibit 6 – When organizations plan for continuous improvement after a transformation, the likelihood of overall success also increases.

Percent of respondents[15]

That statement describes the organization's transformation

Agree (somewhat or strongly)

Disagree (somewhat or strongly)

Success rate of transformations[16]

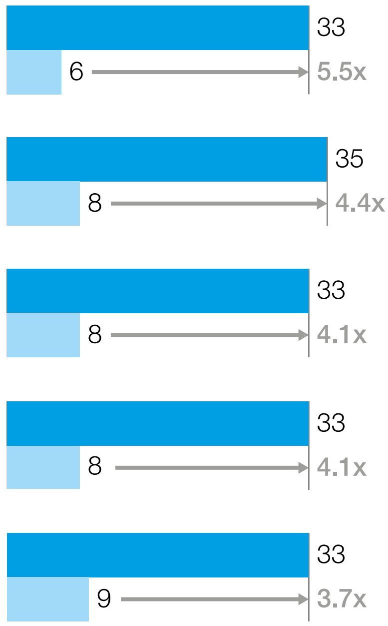
Everyone in the organization understands how his or her work relates to the organization's overall vision

Everyone in the organization is actively engaged in identifying errors and defects before they reach customers, clients, or other consumers

Best practices are systematically identified, shared, and improved upon

The organization develops its people so they can surpass expectations for performance

Everyone in the organization is fully engaged in meeting his or her individual goals and targets



[15]Respondents who answered "don't know/not applicable" are not shown.

[16]Respondents who report "success" say the transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

Digital transformation: three steps to success

James Bilefield and Barr Seitz

The hardest part of a successful digital transformation is the cultural piece. Like the proverbial journey of a thousand miles, it begins with small steps.

Executives at legacy companies, struggling to meet the challenge of an aggressive digital disruptor, sometimes think they have to overhaul their business from top to bottom. Not so, according to serial digital entrepreneur and McKinsey advisor James Bilefield, who has worked successfully on both sides of the digital-traditional divide. While a digital start-up can disrupt the market, legacy companies shouldn't undervalue their own competitive assets or make the mistake of thinking the disruptors have all the cards. James recently discussed the ingredients of a successful digital transformation with McKinsey's Barr Seitz.

Digital transformation as a Trojan horse

One of the elements that I think is misunderstood about a digital transformation is that it's typically a Trojan horse for a much broader business transformation, a time to review many aspects of a business's operations from top to bottom – the talent, the organizational structure, the operating model, products, services, etcetera. Some of those are hard changes that need to be made, and some are softer, like language or culture.

In my experience, culture is the hardest part of the organization to change. Shifting technology, finding the right talent, finding the right product set and strategy – that's all doable, not easy, but doable. Hardest is the cultural transformation in businesses that have very deep legacy and cultural roots.

The power of words

One of the areas I focus on with clients is around the power of words. The language that's used internally in the organization – around products, around the customer, around opportunity – and how you translate that externally to your customers or clients can have a very powerful impact on how you conduct your business and the outcomes you can deliver.

For example, at a financial-services company, the kind of language that's used internally to talk about the customer experience is often peppered with three-letter acronyms that are just "management speak." I think there's an opportunity to completely change the game and to think differently by focusing the language around what you're actually delivering for your customers and then rethinking the way the business operates along those lines. It can be a very powerful shift in culture and in the way people think about what they do.

Three steps for getting a digital transformation on track

Any change process starts with an awareness that there's an issue in the organization. There are many ways to address those issues, but the "softer" things that signal change, such as altering the language used, are important. Some organizations even change dress codes and the office environment, break down silos between organizations, and make certain senior managers more visible. Leadership starts to be seen more around the office and to be more open to more junior levels of the organization than they may have typically been in the past. There's a more informal, if you like, style of management.

Then you start to move into the ways the company judges itself – the key performance indicators (KPIs) and the measures you use, for individuals and for teams and for the wider organization – to try to drive real change. How high up do those new KPIs need to be on a dashboard that otherwise may have been rather traditional and may not have changed much for a decade or more?

And thirdly, it's the actions you take, whether it's putting a designer on your executive team, like we have at Apple now, or even making a designer your CEO, as Burberry has recently done.

So there are a number of quite significant changes you can make to send a signal through the organization. It's not just about a chief digital officer or a chief data officer or a chief analytics officer. Actually, this digital thing becomes everybody's job, everyone's responsibility. You need to inculcate that change across the organization, and you need to take many small and large steps to do that.

Building a culture of constant change

I think you need to be in a state of constant revolution. You don't make a change and then just sit back and wait for the next five years of business as usual. I think you need to build a new momentum and rhythm in your business that reflects the new reality of the industry in which you are operating.

Many companies already have a strategy of continuous improvement in their businesses and in their operations globally. I think you need to instill, even in that kind of organization, a culture of continuous change and evolution in how things work.

Some changes are gradual and evolve toward an end goal, which becomes clear over time, and you need to make a number of small steps to do that. Sometimes you do this through external actions, such as acquisitions, investments, partnerships, or other external activity or statements. Or sometimes you do this through internal activity, such as the people you promote or the way you talk about the company and its customers and mission. Some people will be taken a little outside their comfort zone, but that's OK, so long as you give them the permission to take small risks and fail quickly if they can.

The board's role in the digital age

The role of the board in a digital business is quite different from the role of the board in a legacy business. One of the challenges I think many legacy companies face today is that their boards are not really ready to challenge them and to support and encourage their digital transformation.

If you think of the average age of most board members around the world – and, frankly, of their backgrounds as well – they are not digitally ready. A recent Russell Reynolds survey suggested, I think, that only 4 percent of global 500 companies truly have a board that's digitally ready, even fewer in Asia – Pacific, and under 25 percent in the United States. So there's still a long, long way to go.

To make a digital transformation happen, you need complete alignment – from the board through the executive team through the whole organization. Without that "air cover" from the board and from shareholders who understand the change that you're taking the organization through, it is very, very hard to do it successfully.

For example, many board meetings are backward looking in their approach. The data they're looking at is often a little old. They're not looking at live data. Many board members are often not active customers of the company's products or services. I think there's a new generation of board director emerging that is much more hands-on, with a more entrepreneurial background. You mix that with some of the more traditional board profiles and you get greater diversity on the board.

James Bilefield is a serial digital entrepreneur and a senior advisor to McKinsey. This interview was conducted by McKinsey Digital and Marketing & Sales Practices' Barr Seitz.

Changing change management

Boris Ewenstein, Wesley Smith, and Ashvin Sologar

Research tells us that most change efforts fail. Yet change methodologies are stuck in a predigital era. It's high time to start catching up.

Change management as it is traditionally applied is outdated. We know, for example, that 70 percent of change programs fail to achieve their goals, largely due to employee resistance and lack of management support. We also know that when people are truly invested in change it is 30 percent more likely to stick. While companies have been obsessing about how to use digital to improve their customer-facing businesses, the application of digital tools to promote and accelerate internal change has received far less scrutiny. However, applying new digital tools can make change more meaningful – and durable – both for the individuals who are experiencing it and for those who are implementing it.

The advent of digital change tools comes at just the right time. Organizations today must simultaneously deliver rapid results and sustainable growth in an increasingly competitive environment. They are being forced to adapt and change to an unprecedented degree: leaders have to make decisions more quickly; managers have to react more rapidly to opportunities and threats; employees on the front line have to be more flexible and collaborative. Mastering the art of changing quickly is now a critical competitive advantage.

For many organizations, a five-year strategic plan – or even a three-year one – is a thing of the past. Organizations that once enjoyed the luxury of time to test and roll out new initiatives must now do so in a compressed period while competing with tens or hundreds of existing (and often incomplete) initiatives. In this dynamic and fast-paced environment, competitive advantage will accrue to companies with the ability to set new priorities and implement new processes quicker than their rivals.

The power of digital to drive change

Large companies are increasingly engaged in multiple simultaneous change programs, often involving scores of people across numerous geographies. While traditional workshops and training courses have their place, they are not effective at scale and are slow moving.

B2C companies have unlocked powerful digital tools to enhance the customer journey and shift consumer behavior. Wearable technology, adaptive interfaces, and integration into social platforms are all areas where B2C companies have innovated to make change more personal and responsive. Some of these same digital tools and techniques can be applied with great effectiveness to change-management techniques within an organization. Digital dashboards and personalized messages, for example, can build faster, more effective support for new behaviors or processes in environments where management capacity to engage deeply and frequently with every employee is constrained by time and geography.

Digitizing five areas in particular can help make internal change efforts more effective and enduring.

1. Provide just-in-time feedback

The best feedback processes are designed to offer the right information when the recipient can actually act on it. Just-in-time feedback gives recipients the opportunity to make adjustments to their behavior and to witness the effects of these adjustments on performance.

Consider the experience of a beverage company experiencing sustained share losses and stagnant market growth in a highly competitive market in Africa. The challenge was to motivate 1,000-plus sales representatives to sell with greater urgency and effectiveness. A simple SMS message system was implemented to keep the widely distributed sales reps, often on the road for weeks at a time, plugged into the organization. Each rep received two to three daily SMS messages with personalized performance information, along with customer and market insights. For example, one message might offer feedback on which outlets had placed orders below target; another would alert the rep to a situation that indicated a need for increased orders, such as special events or popular brands that were trending in the area. Within days of implementing the system, cross-selling and upselling rates increased to more than 50 percent from 4 percent, and within the first year, the solution delivered a USD 25 million increase in gross margin, which helped to swing a 1.5 percent market-share loss into a 1 percent gain.

2. Personalize the experience

Personalization is about filtering information in a way that is uniquely relevant to the user and showing each individual's role in and contribution to a greater group goal. An easy-to-use system can be an effective motivator and engender positive peer pressure.

This worked brilliantly for a rail yard looking to reduce the idle time of its engines and cars by up to 10 percent. It implemented a system that presented only the most relevant information to each worker at that moment, such as details on the status of a train under that worker's supervision, the precise whereabouts of each of the trains in the yard, or alerts indicating which train to work on. Providing such specific and relevant information helped workers clarify priorities, increase accountability, and reduce delays.

3. Sidestep hierarchy

Creating direct connections among people across the organization allows them to sidestep cumbersome hierarchal protocols and shorten the time it takes to get things done. It also fosters more direct and instant connections that allow employees to share important information, find answers quickly, and get help and advice from people they trust.

In the rail-yard example, a new digital communications platform was introduced to connect relevant parties right away, bypassing middlemen and ensuring that issues get resolved quickly and efficiently. For example, if the person in charge of the rail yard has a question about the status of an incoming train, he or she need only log into the system and tap the train icon to pose the question directly to the individuals working on that train. Previously, all calls and queries had to be routed through a central source. This ability to bridge organizational divides is a core advantage in increasing agility, collaboration, and effectiveness.

4. Build empathy, community, and shared purpose

In increasingly global organizations, communities involved in change efforts are often physically distant from one another. Providing an outlet for colleagues to share and see all the information related to a task, including progress updates and informal commentary, can create an important esprit de corps.

Specific tools are necessary to achieve this level of connectivity and commitment. Those that we have seen work well include shared dashboards, visualizations of activity across the team, "gamification" to bolster competition, and online forums where people can easily speak to one another (for example, linking a Twitter-like feed to a work flow or creating forums tied to leader-boards so people can easily discuss how to move up in the rankings).

This approach worked particularly well with a leading global bank aiming to reduce critical job vacancies. The sourcing team made the HR process a shared experience, showing all stake-holders the end-to-end view – dashboards identifying vacancies; hiring requisitions made and approved; candidates identified, tested, and interviewed; offers made and accepted; and hire letters issued. This transparency and openness built a shared commitment to getting results, a greater willingness to deliver on one's own step in the process, and a greater willingness to help one another beyond functional boundaries.

5. Demonstrate progress

Organizational change is like turning a ship: the people at the front can see the change but the people at the back may not notice for a while. Digital change tools are helpful in this case to communicate progress so that people can see what is happening in real time. More sophisticated tools can also show individual contributions toward the common goal. We have seen how this type of communication makes the change feel more urgent and real, which in turn creates momentum that can help push an organization to a tipping point where a new way of doing things becomes the way things are done.

□ □ □

Digital tools and platforms, if correctly applied, offer a powerful new way to accelerate and amplify the ability of an organization to change. However, let's be clear: the tool should not drive the solution. Each company should have a clear view of the new behavior it wants to reinforce and find a digital solution to support it. The best solutions are tightly focused on a specific task and are rolled out only after successful pilots are completed. The chances of success increase when management actively encourages feedback from users and incorporates it to give them a sense of ownership in the process.

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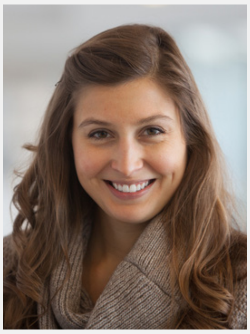

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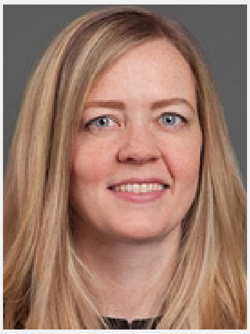

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