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Transformation Practice

How many people are really needed in a transformation?

Deciding how many employees to involve in an organization's transformation shouldn't be a guessing game. New research can help.

by Laura London, Stephanie Madner, and Dominic Skerritt

As business leaders around the world steer their organizations out of the COVID-19 pandemic, many are recognizing the need for transformation. Some are trying to reimagine their cost structure to compete, while others are needing to reimagine their entire business model in the face of rapid industry change. Whether the goal is to capture new opportunities or ward off new threats, these leaders are embarking on a journey to fundamentally change the trajectory of how they operate. That means millions of employees are being not only *asked* to help drive transformation in their companies but also *tasked* to do so with urgency and speed.

In companies big and small, successful transformations ultimately affect every worker. After adapting to a pandemic and to new ways of working, many employees may even expect that change is the new constant. Nevertheless, leaders sometimes hesitate to bring the whole gang on board at the start of a transformation, because doing so can use up too much energy, attention, and resources. The question then becomes, "How many people are really needed in a transformation?"

For years, the answer has been the more, the merrier. But, along with being imprecise,

that strategy isn't really helpful when dealing with a global or decentralized workforce and when needing to make concrete plans for devoting significant employee time to a transformation. At the same time, it's also a mistake to keep the core transformation team small. Even if leaders manage to expand that core team beyond the usual "go to" direct reports, they will soon find that they need a lot more people to make a transformation work.

The threshold for employee involvement

So what is the minimum level of involvement to make successful change happen? We define involvement as having real ownership of an initiative or milestone that contributes to the transformation. When we looked at data from 60 organizations that are at least two years into their transformations, we discovered that transformations with at least 7 percent of employees owning part of the transformation are twice as likely as those with less than 7 percent initiative ownership to have total returns to shareholders (TRS) in excess of their representative sector and geographic stock index (Exhibit 1).[1]

Exhibit 1

Transformations involving at least 7 percent of employees are twice as likely to have positive excess total returns to shareholders as those that involve a smaller share.

Companies with positive excess total returns to shareholders (TRS) relative to industry benchmarks, by share of employees owning transformation milestones or initiatives, % (n = 60 companies)

Less than 7%	36
More than 7%	73

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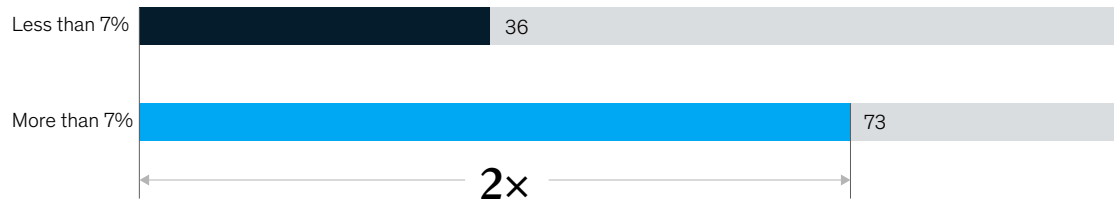
[1] From our data set, we define owners as those unique employees who are directly responsible for the delivery of a transformation initiative or for the delivery of a milestone within an initiative for every analyzed transformation. This responsibility and accountability distinguish their level of involvement from other employees who may have only suggested ideas, attended meetings, professed commitment to the transformation goals in a survey, or received communications related to the transformation. The data are gathered from the performance-management software used in the transformation.

In fact, companies with less than 7 percent employee involvement had, on average, negative excess TRS. We view 7 percent as a tipping point, not a destination. We found that as employee involvement increases, the average excess TRS rises as well (for more on how we measured the impact of employee involvement on TRS, see sidebar, "Our methodology"). When it comes to transformation, more employees owning initiatives leads to better results (Exhibit 2).

While 7 percent may seem like a small number, in many organizations that translates to hundreds of employees fully engaged in the company's transformation. Seven percent is also a higher bar than it may seem: our research finds that the average company involves only 2 percent of its employees as initiative owners in a transformation.

Leaders should think of 7 percent as a bare minimum that is both a catalyst and a guide to secure involvement across all functions and geographies that the transformation will affect. If 7 percent of employees were somehow isolated while the remaining 93 percent continued with business as usual, that wouldn't work. The power of attaining the 7 percent threshold lies in the breadth of reach that it achieves as employees realize that the transformation is not a distant project but rather a fundamental change in how they work. At 7 percent, transformation-initiative owners can no longer be ignored.

Sharing the responsibility to change

Spreading out responsibilities during a transformation helps increase the likelihood that things will get done. A McKinsey analysis of 36,000 transformation initiatives across 35 companies found that giving someone more than five initiatives or new projects to handle increased the risk of delay and value leakage. Having ten initiatives added an additional 20 days of delay in execution and 40 percent more value leakage than having five initiatives.

Increasing the percentage of employees involved requires mindset shifts and tactical interventions in four areas to:

— make innovation and execution everyone's job in order to encourage employees to feel ownership for driving change

Our methodology

To understand the impact of employee involvement in transformation programs on total returns to shareholders (TRS), we identified 60 publicly listed companies that went through an at-scale transformation for a measurable 24-month period and whose TRS could be paired with a representative off-the-shelf sector and geographic stock index.

This allowed us to measure excess TRS against the index for a 24-month period following the launch of a transformation. We compared each of the 60 companies against its own appropriate index by sector and geography for the same period.

We found a statistically significant positive association between the percentage of employees with initiative ownership and excess TRS. We arrived at the 7 percent critical minimum through the evaluation of a regression model showing excess TRS from the percent of employees owning transformation milestones or initiatives, regardless of company size. When involvement dipped below 7 percent, our model showed negative excess TRS.

Exhibit 2

On average, positive excess total returns to shareholders grow as employee involvement in transformation increases.

Average 24-month excess total returns to shareholders (TRS) relative to industry benchmarks, by share of employees owning transformation milestones or initiatives, % (n = 60 companies)
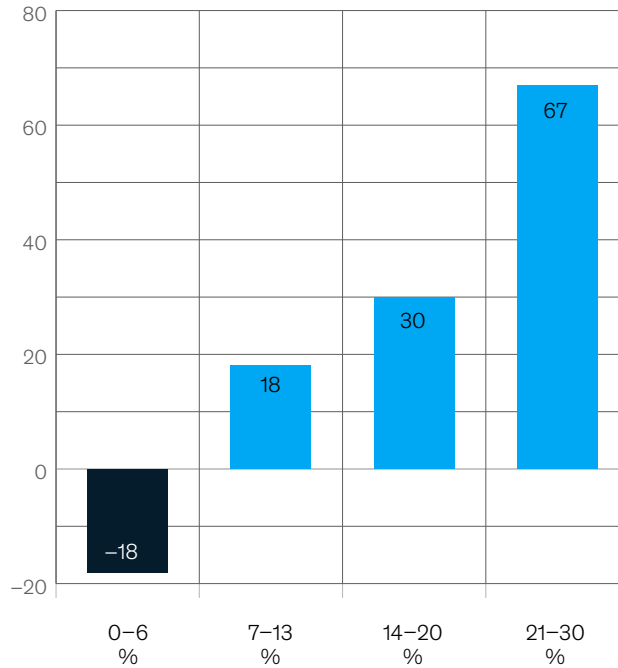
— empower a deep and diverse team, including efforts to engage individuals who don't traditionally participate but who offer the diverse skills and perspectives necessary for transformation

— make it personal and communicate clear and compelling aspirations that connect to employee interests and motivations

— lead by example, serving as a role model in practicing what you preach

These recommendations are informed by the four building blocks that our research has shown help drive sustainable change.[2]

Make innovation and execution everyone's job
Transformation should be something that employees *do*, not something that is done to them. In our global transformation work, we have repeatedly observed a powerful link between ideation, ownership, and implementation. The most successful transformations enable employees from every corner of the organization to put forward ideas that can improve the focus, process, and execution of initiatives. That empowerment is often an important antidote to the "change fatigue" that so many employees feel, starting well before the pandemic.[3]

While the vision and direction are set at the top, transformation is ultimately a more democratic process. That means going beyond rhetoric and

[2]Tessa Basford and Bill Schaninger, "The four building blocks of change," *McKinsey Quarterly*, April 11, 2016, McKinsey.com.
[3]Michelle Brown and Christina Cregan, "Organizational change cynicism: The role of employee involvement," *Human Resource Management*, Winter 2008, Volume 47, Number 4, pp. 663–857, wileyonlinelibrary.com.

The most successful transformations enable employees from every corner of the organization to put forward ideas that can improve the focus, process, and execution of initiatives.

continuing to shake the tree over the life of the transformation. As one transformation leader put it: "Kill the suggestion box." Instead of employees offering ideas for others to carry out, executives should encourage employees to continually bring forth ideas, help them create plans that turn those ideas into value, and then empower them to drive those plans all the way to the bottom line.

The following are examples of ways in which successful transformations make innovation happen:

— *Reach out to the front lines.* Top transformation leaders relentlessly push idea-generation sessions to the front lines. That often delights employees who have been sitting on a great idea for years but never had a mechanism to share it or felt comfortable raising it. At one power company, the transformation office ensured that ideation sessions were held in every business unit. This leads to more initiatives with greater ownership and localization, resulting in greater effectiveness in implementation. Furthermore, the sessions ensured ownership of the transformation. Assigning initiatives to supervisors was prohibited. Instead, initiatives were assigned to frontline employees with deep expertise on the problem, as well as to stakeholders invested in the initiative's success.

This is also critical to helping maintain motivation. Research has shown that employees are more motivated to manage a project from start to finish than to oversee only a small piece of the larger whole.[4]

— *Invite new joiners to give new ideas.* People who are new to an organization's transformation or to the organization itself are well positioned to bring fresh perspectives and external experience, which can be a rich source of value. Yet many new employees often lack a pathway to joining the transformation effort. Transformation leaders should invest early in new joiners so that they are able to contribute their fresh energy and ingenuity from day one.

— *Engage stakeholders in the change.* Transformative change affects not only employees but also customers, suppliers, vendors, partners, and others within the company's ecosystem. That creates opportunities for employees to engage with those stakeholders on a broader level, enabling more collaboration, creativity, and closer ties.

No idea is too small—our previous research highlighted that 68 percent of initiatives are typically worth $250,000 or less and that half

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[4] J. Richard Hackman and Greg R. Oldham, "Motivation through the design of work: Test of a theory," *Organizational Behavior and Human Decision Processes*, August 1976, Volume 16, Number 2, pp. 250–79, sciencedirect.com.

of transformation value typically comes from these smaller initiatives. Ideation and employee involvement are linked.

Empower a deep and diverse team
It can be tempting to focus on a core team of familiar faces and roles and then to return to those people time and again. What often holds leaders back from reaching the 7 percent tipping point is a desire to keep their teams small until they are certain that the transformation is working. In doing so, they miss the chance to bring in new people who might generate fresh ideas or identify unforeseen obstacles. Those new people are also more likely to wield influence with people in groups and functions that often get overlooked. At one company in Japan, for example, a transformation team encountered active resistance from employees who felt excluded and disenfranchised by the transformation process because they felt they were not given an opportunity to contribute.

In all aspects of business, the link between diversity and performance is clear. That is especially true in a transformation, where misinformation, fear, unforeseen challenges, and changing market conditions are constant perils. Bringing in key players across different functions, geographies, age groups, and backgrounds increases the odds of identifying and resolving those challenges while finding new ways to get things done.

Leaders can help strengthen the breadth and diversity of the core team in four ways:

— *Refresh the talent list.* Partner with HR to define clear criteria for key transformation roles, enlisting employees with local knowledge and strengths that are not already represented on the team. Change efforts are nearly four times more likely to be successful when influence leaders are involved, regularly refreshing the talent list and striving to find those who may feel out of the loop. When a power company sought to launch round two of a successful transformation, the CEO insisted that participants in the second round be a different group from the first and personally took the time to compare the lists of names for leaders who may have been overlooked.

— *Provide opportunities for diverse talent to stretch and influence.* The most successful transformations enable employees from every corner of the organization to bring forward diverse perspectives, skills, and experiences that can improve the focus, process, and execution of initiatives. Effective change requires strategically aligning roles in the transformation based on employees' influence in the organization and how much value they are responsible for delivering, including enlisting them to both communicate change and listen to the voice of the organization. That is critical not only to maximize potential upside through the transformation but also to mitigate the risk of overlooking and disenfranchising high-value talent.

— *Establish and track benchmarks.* Leaders should bring the same rigor to tracking diversity as they do to tracking financial value, with clear metrics, ownership, and benchmarks for success. They should hold members of the leadership team accountable for bringing diversity into the mix from their functions or geographies. Leaders also need to engage with affinity groups to get candidates as well as feedback on the transformation plan. And they should be especially diligent about engaging with groups that are most likely to experience disruption from the transformation plan.

— *Build in a skills-development and learning program.* Transformation is an ongoing process, not just a desired result. Experiencing the natural rigor of a transformation can help build capabilities and allow employees to practice and improve new skills. Also, most successful

transformations provide additional training opportunities to help employees learn and grow in a supportive environment, preparing a bench of talent. Disruption often spawns new opportunities and a willingness for people to reach outside their comfort zones because the status quo is no longer an option.

Make it personal

For many CEOs, significant improvement in financial performance is the raison d'être for large-scale transformations. Although management teams may get excited when transformation initiatives meet or exceed financial targets, employees are less likely to rally around a set of numbers. While incentive bonuses can help, everyone needs to feel that there is a higher purpose in driving change. That has become especially evident during the COVID-19 crisis as businesses large and small have been upended and forced to assess the value in what they do.

To connect with employees, transformation leaders need to pay attention to the fundamentals of what motivates change.

— *Define meaning beyond money.* All companies—and their employees—need a purpose beyond making money. We find that employees respond to sources of meaning beyond financial results, such as the organization's contribution to society, its devotion to its customers, or its support for individual careers and teams. Transformation leaders should emphasize the nonmonetary benefits of change and communicate progress via anecdotes and stories throughout the transformation process, recognizing that the pain of transformation often precedes the payoff: cost efficiencies can be visible long before benefits such as marketing-led growth or organizational effectiveness.

— *Surface, explore, and address mindsets.* Our research has shown that executives at companies that made the investment in addressing employee mindsets were four times more likely than those that didn't to rate their change programs as successful. This involves not only understanding how people are thinking and feeling, but also why they are reacting that way. This requires surfacing employees' underlying beliefs, assumptions, mindsets, and then working to align new behaviors with their beliefs. Those numbers reflect the importance of making mindset shifts a priority from the start.

— *Personalize the change.* Transformations don't happen through initiatives; they happen through people changing their behaviors. In addition, defining and demonstrating purpose has proven to be especially critical amid the pandemic. The quicker change leaders can help people understand aspirations and new expectations, the sooner real change starts happening. Leaders should also provide people with the tools they need to transform personally and connect them with a community of their peers to grow alongside. For example, there are tech-enabled ways to personalize change management in the smartphone era.

Lead by example

Leaders are role models whether they like it or not. Employees notice when their bosses don't walk the walk or change their own behaviors to adapt to the goals of a transformation. To truly transform, leaders must start by looking in the mirror. Do they have a mindset that's conducive to the change they seek? Are they looking for others to take action and responsibility in transformation?

Our research tells us that mindset is the biggest block to successful transformations, especially the propensity of leaders to say, "Yes, that's the problem and the shift we need. If only *others* would change how they think and behave, we would make more progress."[5]

Employees at all levels in a transformation need to see that their leaders and peers are living and

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[5]Scott Keller and Bill Schaninger, "Getting personal about change," *McKinsey Quarterly*, August 21, 2019, McKinsey.com.

implementing the transformation. Through sharing personal stories of change, town halls, and other communication programs, leaders can find ways to show that they are embodying the change they want to see in all employees versus having a "do what I say and not what I do" attitude. The following tactics can help:

Position transformation as the new normal. Leaders can combat change fatigue by constantly communicating what's different this time and by repeatedly emphasizing that the transformation is not a one-time project. To achieve that, they need to build skill and will in individual teams and leverage the energy in the broader organization. Leaders can achieve that by encouraging and empowering employees across the organization, starting at the top, to share the core messages of the transformation, covering the aspiration, their personal motivations, why they believe it's going to work, and what it will take to get there. Doing so will go a long way toward helping employees accept the change, incorporate changes into their critical work patterns, and believe that their leaders are paving the way for a better future.

Recognize champions of change. Through communications, town halls, or a simple phone call from the CEO, leaders should strive to shine the spotlight on employees who embody positive change through their actions and behaviors. Rewarding them with financial incentives and promotions helps demonstrate that these values matter. One chemical company, for example, celebrated a warehouse employee who, after noticing that the machines that put cling film on pallets were running out of film at different rates, adjusted the machine settings, saving the company $50,000 a year. Another company in Japan boosted participation in its transformation after initiative owners shared their personal change stories to a broad internal audience.

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Transformation is difficult. However, one thing that unites those that succeed is widespread and meaningful engagement from employees at the start. When leaders find ways to meaningfully involve 7 percent or more of their employees in a transformation, positive change starts to escalate. By giving a diverse range of employees a chance to be heard and involved in a company's transformation, leaders set a powerful example of the kind of company they want to create.