

McKinsey Transformation Practice

Beyond transformation: What we now know about driving bottom-line performance

A comprehensive operating backbone is needed from day one to ensure that the core business moves in lockstep with the transformation.

This article is a collaborative effort by Charlotte Relyea, Michael Bucy, Pasley Weeks, and Stephan Görner, with Marc Lanthemann, representing views from McKinsey's Transformation Practice.



Nearly a decade ago, we wrote about the [necessity of transformation](#) in a world where established businesses need to adapt to ever-faster technological change and market evolution. Since then, and especially with the rise of [gen AI](#) and [agentic AI](#), the pace of change has only accelerated. Change is now a permanent fixture, and businesses must increasingly deliver transformation initiatives while simultaneously executing day-to-day activities. Given that CEOs and executive teams are measured on the performance of the entire business, they cannot afford to be successful in just the transformation or the day-to-day; they must succeed in both, together. Yet, it's easy for these efforts to conflict.

We have continually found that it is difficult to drive big shifts without the capacity and focus that a [transformation capability](#) offers. Equally, though, the transformation cannot exist in a silo as a set of discrete initiatives run by a separate group disconnected from how the company operates day-to-day. To avoid conflicts and guarantee the performance of the whole, the day-to-day business and the transformation should be put in lockstep from day one.

This coordination does not just happen. It requires an independent, stabilizing element—an “operating backbone”—to link the running and changing of the business (Exhibit 1).

Exhibit 1

An execution operating system mobilizes an organization to deliver on a bold aspiration by using the right behaviors, skills, data, talent, and technology.

‘Operating backbone’

Ensure that day-to-day business and transformation initiatives move in lockstep along 5 metrics:

- Targets for operating metrics
- Roles and accountabilities
- Sizing and timing to achieve targets
- Incentives tied to targets
- Performance visualization



Run business

Rigorously manage day-to-day business activities and correct course, as needed, through performance forums and processes



Transform business

Change how work is done to improve performance through core enhancements, reinvention, M&A, new business building, etc

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An operating backbone defines what an organization seeks to achieve, who owns what, and exactly how the organization will realize its potential. It consists of five elements that both guide and influence the transformation and day-to-day activities:

1. targets for the core operating metrics of the business—typically five to seven tier-one metrics
2. clear owners and accountability for those operating targets
3. sizing and timing of the improvements necessary to achieve the targets
4. incentives tied to the targets
5. transparency to allow for real-time performance management

These elements are not novel, and every company wrestles with them in some way. In our experience, however, these elements are not as emphasized or connected to one another as they should be to ensure that a transformation and day-to-day business activities remain in lockstep and that an organization achieves its potential amid such change.

The all-too-common frustrations resulting from a disconnected transformation

As noted, many companies try to separate the transformation from the day-to-day business. The siloed transformation is often a compromise for leaders who want to feel as though they are changing without *really* making any changes. The divided effort promises not to distract from the day-to-day business or create too many disruptions.

While some separation can protect the transformation from always taking a back seat to the firefighting happening in day-to-day business operations, conducting a transformation in a silo often leads to competition between the transformation and the day-to-day business for resources, leadership focus, and credit. Without clear coordination, distractions and frustrations are inevitable, and the result is endless reconciliations and organizational fatigue. The disconnect commonly shows up as the following CEO and executive team frustrations.

Frustration one: ‘I don’t see the impact in the P&L statement’

This is the most common complaint from CEOs and CFOs about transformations. Leaders should be able to isolate the impact of a transformation *and* trace the effects directly to the P&L and the operating metrics of the business. Without a common backbone to track each initiative’s financial and operating results, CEOs and CFOs lack clarity on what is driving performance and shortfalls. Instead of spending countless hours reconciling impact reports across multiple sources of truth, a common backbone refocuses leaders on the actions required to improve delivery on transformation initiatives or the execution of day-to-day business activities. It gives them a better sense of how to address near-term headwinds or opportunities.

Frustration two: ‘The transformation is only about cost cutting and is hurting our long-term growth, customers, and employees’

Leaders tend to overindex what can be easily measured and counted. In transformations, this can lead to an excessive focus on cost cutting and margin optimization, which can exacerbate the perception of transformations as short-term financial exercises rather than drivers of lasting, holistic change. Without a connection to (and understanding of) the core value drivers of the business—and a means to quantify the impact on customer and employee outcomes—a transformation can neglect critical customer and employee needs. Even worse, transformation initiatives can create collateral damage affecting customers or employees.

Frustration three: ‘We had a few wins, but the overall business is declining’

The biggest fear for transformation experts is that, for as much as the transformation may deliver, overall business performance declines even more, eating away any upside from improvement initiatives. This can happen quickly because of a singular event (for example, rapid inflation, a new market entrant, or the loss of a major customer) or gradually due to eroding competitiveness (such as poor sales execution or a bloated cost structure). Executives often blame the transformation for distracting the organization and taking up too much time and focus. Often, however, these underlying business changes could have been mitigated by aggressively using the transformation to counteract business headwinds and by embedding the execution and performance rigor of the transformation into day-to-day management.

Frustration four: ‘The transformation is just too tiring’

Without a clear and conscious connection between the priorities and trade-offs associated with the transformation and the day-to-day business, a battle often emerges between the two. Teams duplicate efforts, wasting resources and causing frustration. Leaders outside the transformation may resent the focus, attention, and credit that the transformation receives and often set up competing programs. The competition persists, leading to transformation fatigue and an organizational backlash. The all-too-common result is that the transformation delivers on the lowest-hanging fruit but loses momentum and fails to address the stickier problems whose resolution would lead to true transformational change in years two and three.

Frustration five: ‘We have not really changed how we operate’

Transformation success should not be assessed based on a finite set of initiatives; true success rests on whether the transformation instills repeatable processes that can deliver value again and again—long after the program ends. The transformation must fundamentally change how people operate—for example, through higher-quality analyses, faster decisions, and greater accountability. It must also embed repeatable processes into the business’s monthly, quarterly, and annual planning cycles to ensure continuous improvement. A sustained shift can happen only if the transformation is focused not just on delivering a set of initiatives but on changing how the day-to-day organization functions.

When faced with these frustrations, many leaders react by launching more disconnected improvement efforts—for instance, additional initiatives or even whole transformations to fill P&L gaps, improve the customer experience, or change the organization’s ways of working. Yet

this response only widens the gap between the transformation and the day-to-day business. Leaders don't need to throw more spaghetti at the wall; they need to ensure that what they are doing is connected through a common backbone that binds the transformation and the day-to-day business.

How an operating backbone supports the whole

An operating backbone provides transparency on the relative performance and linkages between the transformation and the rest of the business. It establishes accountability throughout the organization, from the CEO to frontline managers, enabling leaders to answer the who, what, where, when, and how of performance management.

Five interconnected elements make up an operating backbone and create organizational stability. Given that they are intertwined, a step-by-step approach is needed to ensure that each element is both internally coherent and seamlessly connected to the preceding elements.

Element one: Targets for the core five to seven operating metrics of the business

To build an operating backbone, leaders must start with the operating metrics, which are the lifeblood of a management operating system. On this point, however, many organizations struggle: They track too many metrics without prioritizing them according to strategic importance and end up with a lack of organizational focus. They rely only on metrics that are readily available or anecdotally thought to be important. They struggle to link operating metrics to financial performance. They spend all their time on easily measured, lagging metrics. They focus only on in-year targets and don't mobilize the organization to go after a different future with bold end-state targets.

Leaders can avoid these pitfalls by rigorously identifying the drivers of value in the business, aggressively prioritizing a small set of tier-one core metrics (informed by a broader set of tier-two and tier-three metrics), and then establishing both short-term and end-state targets for each tier-one metric. That's how an organization can reach its full potential.

This may sound simple, but it typically takes deep and detailed work to get it right. For instance, an international chemicals provider struggled to identify the most critical business drivers. The company was tracking too many metrics across safety, volume, health, and sustainability. Worse, the organization was using a range of different methods to calculate each metric. These variances limited the organization's ability to set accepted short-term and end-state targets and hold leaders across the organization accountable for delivery of those targets. By rigorously [clean-sheeting](#) the business's value drivers and defining clear methods of calculation, the organization established a foundation for robust performance management.

Element two: Clear owners and accountability for the targets

With core metrics clearly defined, organizations can then define who is responsible for setting and delivering the results. In many organizations, responsibilities and accountabilities are only

vaguely defined, in part because, in many cases, several functions can influence the delivery of a single, key operating metric. Without clear decision-makers and intentional links to the day-to-day business, transformations can grind to a halt as they inherently demand changes to how an organization operates. A single leader should be held responsible and accountable for performance management—and accountable for both the plan and the results, even when both are dependent on other functions for delivery.

For example, leaders at the chemicals provider noted a lack of clear ownership of a critical role: tracking “input feed rates,” meaning the rate at which a chemical is added to a system. To establish clear, single owners and drive the appropriate level of accountability, the chemicals provider split that operating metric into two—volume and unit cost. With this split, the COO and chief procurement officer were each able to own their core metric and make the critical decisions necessary to create the desired outcomes.

Element three: Sizing and timing of the improvements necessary to achieve the targets

With operating metrics and accountabilities set, business leaders can then connect the nuts and bolts of initiative delivery with those of day-to-day core business performance management. This is the critical element of the operating backbone that marries the transformation and day-to-day business and keeps them together.

For each core operating metric, the accountable leader should establish a “glide path” to assess whether they will achieve their short-term and end-state targets. The phrase borrows from aviation, where airline pilots follow specific paths when descending to guide their arrival at a particular destination. In the business context, glide paths incorporate three factors: the baseline trajectory, the expected improvements from initiatives, and the potential headwinds or tailwinds in the market.

The baseline trajectory reflects the existing momentum for each metric—that is, absent any deliberate interventions, what future performance would be given past performance. The expected improvements are linked to the financial and operating impact outlined in the transformational initiatives that were approved for execution. And potential headwinds and tailwinds should be anticipated based on both market conditions, such as inflation, and production issues, such as power outages and supply chain shortages.

Glide paths allow leaders to shift from managing metrics through best efforts to managing metrics through accountable commitments, supported by an execution plan. With these projections, leaders will be better equipped to integrate the financial impact of transformation initiatives into multiyear business plans, budget cycles, and monthly forecasts to ensure that all the upside is fully realized and visible in the bottom line. Discussions about operating metrics become more fact-based and actionable given the integrated insight from transformation and day-to-day performance provided by glide paths.

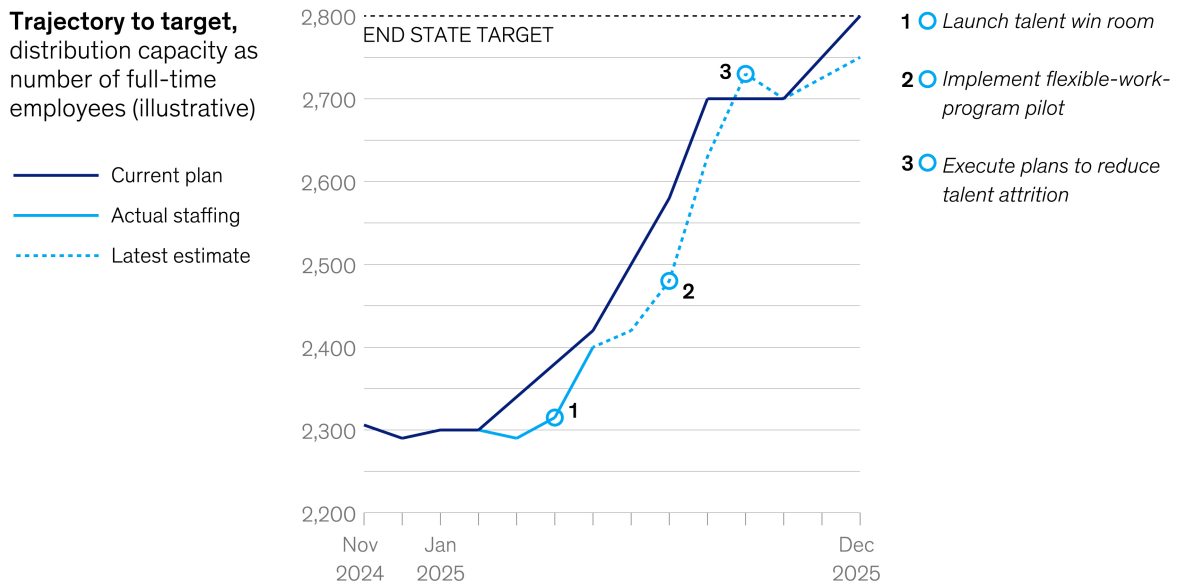
In building the glide paths for its core metrics, a North American logistics distributor quickly realized that a particular metric—operator capacity—showed a significant variance from the

target during peak season. It turns out several factors had not been pulled together in one place, including higher attrition after bonuses were paid and lower-than-expected hiring conversion. With its glide path analysis in hand, and given the urgency of peak season, the organization took steps in advance to attract and retain workers. The organization had the information it needed to act quickly when a competitor filed for bankruptcy and a flood of qualified talent hit the labor market. Longer term, given the pressures highlighted through continuous reviews of this metric and its glide path, leaders changed their perspective on employee retention and set a target to reduce talent attrition by 40 to 50 percent. They also launched a comprehensive suite of changes to realize this step-change improvement (Exhibit 2).

Exhibit 2

By using 'glide paths,' a logistics company was able to review sizing and timing systematically for planned improvements.

Trajectory to target,
distribution capacity as
number of full-time
employees (illustrative)



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Element four: Incentives tied to targets

Incentives, financial and nonfinancial, are the chief reinforcement mechanisms in performance management. They provide ongoing fuel and focus for executives, managers, initiative owners, and line managers to outperform. Given the outsize demands and potential rewards of

transformations, organizations should lock in their targets and then revisit and revise their incentive schemes during transformations. Incentives should compel employees to not just deliver but also overdeliver on both short-term and end-state targets. Equally, incentives should not unduly punish leaders who commit to stretch goals but fall just short. The resulting program should be clearly outlined and tied to individual objectives and key results.

The logistics distributor mentioned earlier recognized that its incentive programs were disproportionately focused on financial performance and not enough on customer and employee retention, particularly for line managers. To help address the employee retention gap, the company immediately launched a bonus incentive for each line manager and local execution team to reward employees who stayed during the intense and stressful peak season. Coming out of the peak, the logistics company revised its executive and line manager incentive plans, putting customer and employee retention on equal footing with financial performance while establishing a clear upside for exceeding targets.

Element five: Real-time transparency that enables ongoing performance conversations

With clear alignment on targets, accountability, plans, and incentives, leaders should then create visibility about performance across the organization. Such transparency allows leaders to engage in continuous conversation about performance, stay ahead of potential problems, and identify opportunities to change course.

The capstone of the operating backbone is a CEO nerve center that knits the organization together and enables the transformation and day-to-day business to operate using the same targets, focus, and visibility. This real-time visualization tool provides a single source of truth on the core operating metrics and should be embedded within the operating rhythms of both the transformation and the day-to-day business.

Transformation meetings should incorporate reviews comparing actual results from operating metrics to their glide path projections. Leaders can then evaluate whether enough is being done to hit the targets to which they have committed. The daily, weekly, and monthly forums managing the day-to-day business should break out the expected improvements from transformation initiatives to help isolate unexpected headwinds and tailwinds. If financial or operating performance slips, leaders can immediately respond and change course, either in the transformation or the day-to-day business.

In both the chemicals and logistics organizations, leaders invested in building CEO dashboards using real-time data to track insights, spot variances and opportunities, and reprioritize resources accordingly. The chemicals producer, for instance, made a conscious decision to focus its process engineers on improving asset reliability (in particular, reducing unplanned outages) rather than spreading them across the organization. Meanwhile, the logistics distributor used weekly forums to share information focused on the talent gap, growth, and customer care with local leadership teams. In both cases, real-time data and visualizations gave leaders a dispassionate view of how resources were being used and where they needed to be deployed.

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Executives might be tempted to treat a transformation as a “special event”—building a shadow infrastructure with separate governance, tracking tools, and functions that run alongside the core business until the transformation’s time is up. But, as our research and experience show, organizations that reap the true organizational change promised by a “capital T” transformation ensure that “run” and “change” processes are connected and move in lockstep from day one.

This connection requires that companies establish an operating backbone that exists outside the transformation and the day-to-day business and ensures that the organization focuses on the core drivers of performance with clear accountability, commitments, rewards, and transparency.

The good news is that this concept is evergreen: regardless of the latest operating trends—be it outsourcing, lean, digital, or gen AI—an operating backbone provides the hard wiring required to change how an organization operates. It can help address the core frustrations of CEOs and executives that have plagued transformations, revealing an organization’s full potential—in the transformation and, more important to a CEO, across the entire business.

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