

Transformation and People & Organizational Performance Practices

How to gain and sustain a competitive edge through transformation

Our latest research confirms that a comprehensive approach to transformation, which enables mindset and behavior changes at scale, is crucial to success—including when it comes to outperforming peers.



The modern organization is facing a confluence of disruptions that have raised the bar for how companies manage change and transform themselves. The results of our newest McKinsey Global Survey on transformations continue to confirm just how much value is at stake, and how much can be lost, at every phase of such change efforts.

So what really works when it comes to today's transformations? We know that successful transformations involve a wide range of actions that reflect the will, skill, rigor, and scope¹ of the effort. But after surveying transformation participants across the globe, we identified seven actions in particular that are most likely to increase the odds of a transformation's success—by both achieving and sustaining performance improvements² and helping organizations establish a lasting competitive advantage (see sidebar “About the methodology”).³

The seven actions we identified—including role modeling, moving quickly, and striving for holistic impact—point to a clear transformation approach for managing change successfully in an ever-changing world.

About the methodology

Our online survey was conducted from April 11 to April 25, 2023, with 472 respondents who had been a part of at least one transformation effort in the past five years. Only respondents whose transformation initiatives had been at least partly implemented answered the full survey, including questions on the transformation's success. Our sample included respondents who held various roles in the transformation, from senior leaders and sponsors to contributors and owners of specific initiatives. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's office location to global GDP to develop insights that are as representative as possible of a global business audience. In this article, we report on the results for the actions that had the largest effects on the outcome metrics.

The value at stake and the foundations for success

Consistent with our previous research, we find that companies are losing potential value across all four phases of a transformation⁴—most notably during the execution of transformation initiatives (Exhibit 1).

Exhibit 1

Respondents report that value is lost across all phases of a transformation, especially during execution.

Distribution of lost financial benefit, by transformation phase,¹ %

Goal setting	Planning	Execution	After execution
20	25	37	19

Note: Figures do not sum to 100%, because of rounding.

¹We defined “financial benefit” as the potential increase in EBITDA that the transformation could have achieved. Respondents who answered “don't know/not applicable” are not included in the analysis.

Source: McKinsey Global Survey on transformation, Apr 11–25, 2023 (n = 472)

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¹ For the purposes of this article, we discuss will and scope separately to distinguish between leaders' and employees' *commitment* to the transformation's aspiration, which is reflected in will, and the *breadth* of that aspiration, which is reflected in scope.

² Includes respondents who say their organizations' transformations of the past five years have been very or completely successful at improving the organization's performance (for example, profitability, return on capital, market value, lead-time reduction) and at sustaining those improvements into the present day.

³ Includes respondents who say their organizations' performance has been better or much better than competitors' since the transformation began.

⁴ For more, see “Losing from day one: Why even successful transformations fall short,” McKinsey, December 7, 2021.

To understand how companies can realize or reclaim this value, we asked participants about a range of actions that are used to support a successful transformation effort, including those that are

associated with the “influence model,” McKinsey’s long-standing theory of behavior change within an organization.⁵ (See sidebar “The influence model, explained.”)

⁵ Tessa Basford and Bill Schaninger, “The four building blocks of change,” *McKinsey Quarterly*, April 11, 2016.

The influence model, explained

In McKinsey’s research and experience, the most effective change efforts follow the four elements outlined by the “influence model,” an essential tool for changing people’s mindsets and behaviors.¹ In the transformation context, we recommend pursuing these four elements to ensure the changes are comprehensive and systemic.

1. **Engage on and communicate a bold aspiration.** A truly successful transformation sets a high bar for the organization. To back bold aspirations, leaders can do three things. First, they can foster understanding and conviction among employees across the organization through change stories and communications dedicated solely to the transformation. When employees understand the reasoning behind the changes they’re asked to make, they’re more likely to act in support of these changes. Second, they can emphasize speed. When the transformation moves quickly yet thoughtfully and includes input from employees, people are more likely to recognize why the effort is important

and different from past ones. And finally, they can strive for holistic impact: when a transformation aims to improve a range of outcomes, not just financial ones, employees are more likely to link the overall aspiration to their own work and what matters most to them.

2. **Mobilize a leadership network to role model the change.** When company leaders demonstrate the behavior changes that they are asking others to make as part of the transformation, employees are more likely to follow suit. And remember, leaders come from *everywhere* in the organization, not only from the C-suite.
3. **Enable better, faster execution through reinforcing mechanisms.** When an organization establishes structures, systems, and processes that align with the goals of the transformation, employees are more likely to feel supported and rewarded for adopting new mindsets

and behaviors. Among the essential mechanisms to bolster these changes are incentives, operating-model changes (for example, the streamlining of decision rights and “boxes and lines”), process changes, systems and technologies, governance, performance management, and corporate norms about how work gets done.

4. **Ensure the adoption of new skills at scale.** When employees have the skills to act in a new way, they are more inclined to make the desired changes to their mindsets and day-to-day behaviors. Such skills relate to everything from execution and leadership to functional or technical expertise. And across skill types, employees are better equipped to support the transformation changes under way when they are offered a range of targeted opportunities to apply the skills they learn in their day-to-day work.

¹ Tessa Basford and Bill Schaninger, “The four building blocks of change,” *McKinsey Quarterly*, April 11, 2016.

Respondents' answers suggest that four broad elements underlie transformation success:

- **Will:** an ambitious, shared aspiration to reach the organization's full potential
- **Skill:** the capabilities and tools of the organization as a whole (for example, gathering market intelligence and using that to inform product design), as well as those of the individuals who make up the organization (for example, focusing on the right priorities, communicating clearly, and running meetings effectively)
- **Rigor:** the performance infrastructure of the transformation effort (for example, incentive structures) that enables the disciplined execution of individual initiatives and the sustainability of the effort's overall impact
- **Scope:** the range of outcomes that the transformation aims to improve, such as EBITDA, working capital and cash, customer experience, employee health and safety, or greenhouse-gas emissions

The survey results, and our experience, affirm that a comprehensive approach to transformation is best. Nearly all respondents (96 percent) from transformations that implemented all four elements say their efforts improved and sustained organizational performance, compared with 13 percent of respondents from transformations that implemented just one.⁶ Furthermore, despite the difficulty of outperforming peers in a continually evolving competitive landscape—and the inherent challenge of large-scale change efforts—respondents whose transformations implemented all four elements report a much higher rate of outperforming peers than those whose transformations implemented just one. They are more than twice as likely to say so: 39 percent, compared with 16 percent. Yet the results suggest that few organizations are taking this comprehensive approach, with only 6 percent of respondents reporting transformations that implemented all four elements.⁷

In our research, we also identified seven actions that underlie the four broader elements of will, skill, rigor, and scope. Since respondents reporting many of these actions are nearly twice as likely as their peers to see successful outcomes (Exhibit 2), we took a closer look at each one—with a focus on how the seven actions can help companies create a sustained, competitive advantage.

⁶ To determine which respondents reported that their transformation implemented one of the four elements, we analyzed their responses to questions about the specific actions that underpin will, skill, rigor, and scope. For some actions, respondents' transformations are categorized as doing that action if they say their organizations implemented a related action effectively or very effectively. For others, respondents' transformations are categorized as doing that action based on their identification of, for example, the types of skills the organization made efforts to build (for "skill") or the length of time it took to see meaningful improvements in the outcomes the transformation aimed to improve (for "rigor").

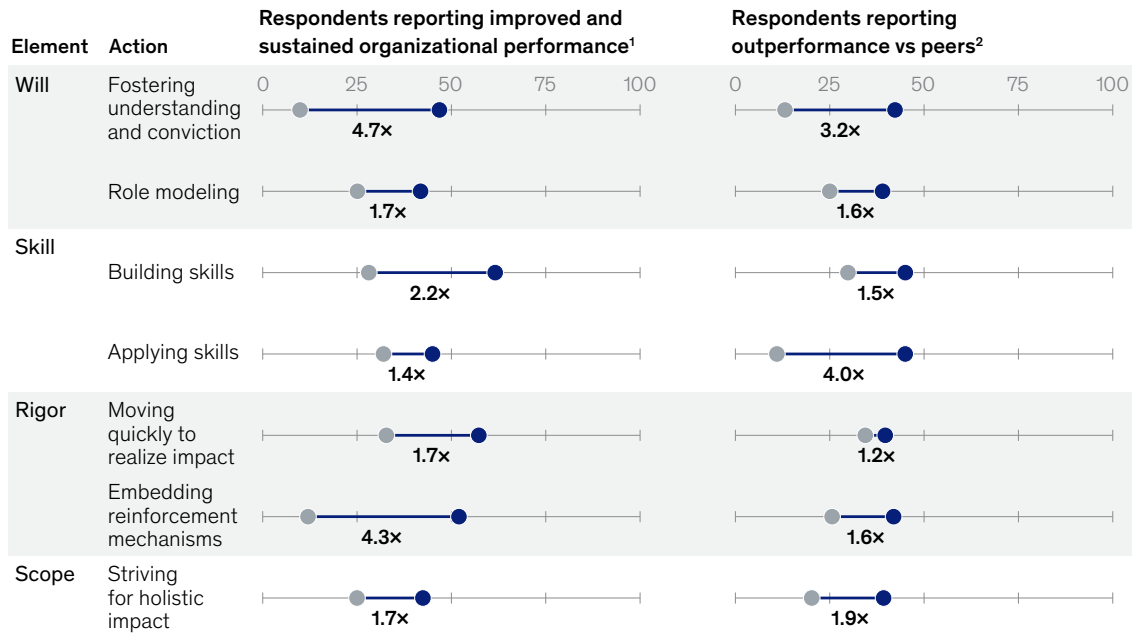
⁷ It's possible that few respondents say their transformations have implemented every element, because missing one makes it harder to implement the other three. For example, transformations may encounter barriers to execution (rigor) if their employees aren't committed to the reasons for the transformation (will). Only 21 percent of respondents report that their transformations implemented the actions that reflect skill, and 21 percent say the same for rigor (compared with 76 and 70 percent, respectively, for will and scope).

Exhibit 2

When respondents say their transformations involved each of seven key actions, they also report a higher rate of success.

Success rate of transformation, % of respondents

Absence of action ● Multiplier Presence of action ●



¹Respondents who say their organizations' transformations have been very or completely successful at both improving their organizations' performance (eg, its profitability, return on capital, market value, or lead-time reduction) and sustaining those improvements into the present day.

²Respondents who say their organizations' performance has been better or much better than competitors' since before their transformations began.

Source: McKinsey Global Survey on transformation, Apr 11–25, 2023 (n = 472)

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Will: The organization's commitment to the aspiration

To influence the organization's will to undertake the transformation, we identified two actions that are related to transformation success: fostering understanding and conviction, and role modeling.

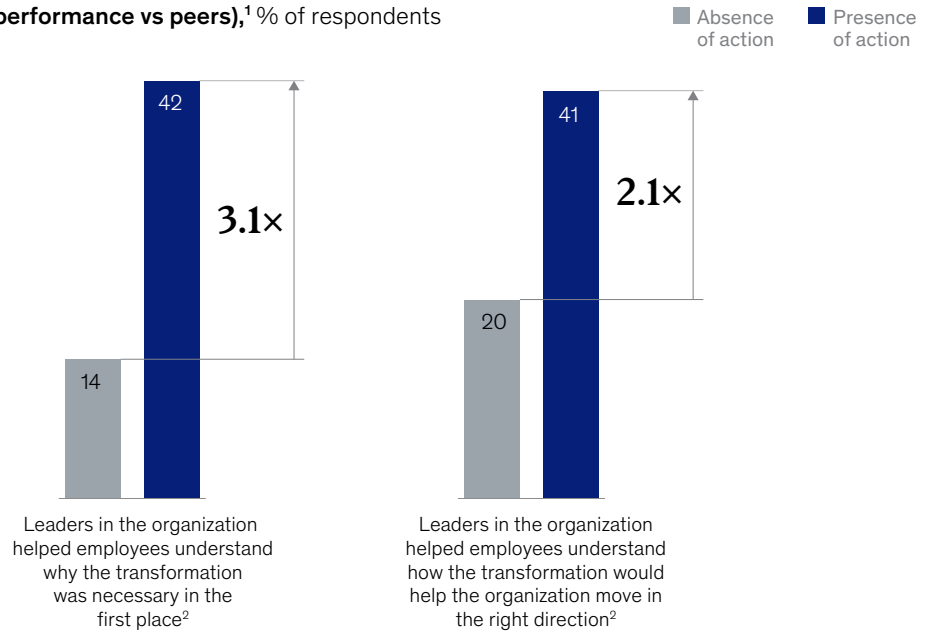
Fostering understanding and conviction. The survey results indicate just how critical it is that employees understand why they're being asked to change. Respondents who say their transformations fostered understanding and conviction are 3.2 times more likely than those without this action to report outperformance versus peers after the transformation began.

To start, companies should explain why the transformation is necessary in the first place. According to the survey, respondents whose transformations explained the rationale are 3.1 times more likely than others to report outperformance (Exhibit 3). Also critical is clarifying its implications for employees across the organization, identifying important stakeholders who can build conviction internally, and ensuring that leaders use a consistent change story to align the organization around the transformation's goals.

Exhibit 3

Respondents whose transformations foster understanding and conviction are more likely to report outperforming peers.

Success rate (outperformance vs peers),¹ % of respondents



¹Respondents who say their organizations' performance has been better or much better than competitors' since before their transformations began.

²These questions were used to determine whether the transformation fostered understanding and conviction. We determined that the specific actions above were "present" in the transformation if respondents said their organizations implemented the action and that the action was effective or very effective at sustaining changes.
Source: McKinsey Global Survey on transformation, Apr 11–25, 2023 (n = 472)

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Role modeling. Leaders need to walk the walk with respect to the desired mindset and behavior shifts they're asking others to make during the transformation. Respondents reporting that leaders role modeled changes are 1.6 times more likely to report outperforming their peers.

To do this, leaders can start by communicating changing expectations and norms clearly and consistently and providing employees with opportunities to learn more from leaders about the transformation. They can also identify "influencers" (that is, influential people whom other employees look to for advice, input, or ideas) and involve them in the transformation as owners of important

initiatives or milestones, since role modeling happens—and matters—across all levels of the organization.

For example, one industrial company in a dire financial situation took several steps to ensure that all employees were committed to the transformation's aspiration. The CEO personally shared powerful and honest stories about why the transformation was necessary at all levels of the organization, so employees understood as well. He also role modeled new behaviors that employees were expected to demonstrate. For example, he showed he was taking the change effort seriously by running core meetings when

the chief transformation officer couldn't attend and by leading courageous conversations about the transformation in forums that were open to a wide audience. He also held himself personally accountable when his team made any missteps: apologizing to the organization, providing the rationale for what happened, and committing to doing better next time. This commitment cascaded throughout the organization, with nearly 50 percent of the workforce involved in individual initiatives in some form by the transformation's second year. Through the transformation, the organization saw substantial shifts in mindsets and behaviors. The company also realized massive performance improvements, including to its share price, which increased by more than ten times during the transformation.

Skill: The capabilities the organization needs to succeed

To ensure that the organization has the capabilities needed to support the transformation, respondents' answers point to two actions: building skills and applying skills.

Building skills. Once the organization has fostered commitment to the changes, it can initiate efforts to build the necessary skills for transformation success, including technical, execution, interpersonal, and leadership skills—which other McKinsey research suggests are foundational for the future of work.⁸ Respondents stating their transformations included efforts to build all of these

key employee skills are 1.5 times more likely to report outperforming peers.

To do this, companies can formally evaluate employees' skills to identify gaps and initiate efforts to develop capabilities that are directly linked to value creation. Our past research on transformations confirms the importance of linking business and talent priorities—namely, by identifying high performers and giving them ownership of high-value initiatives.⁹

Applying skills. Throughout the transformation, employees need regular opportunities to apply the skills they are learning. When they do, respondents are four times more likely to report that the organization outperformed peers.

Companies can create these opportunities by providing resources to support employees' behavior changes during the transformation. In the survey, respondents who say their organizations provided resources for applying new skills through tools, such as dashboards and project plans, are 3.8 times more likely to report outperforming peers (Exhibit 4). Companies can also establish a weekly meeting cadence for employees at all levels to share their progress on applying new behaviors and monitor the implementation of transformation initiatives, to ensure that people have enough opportunities to demonstrate the skills they are building.

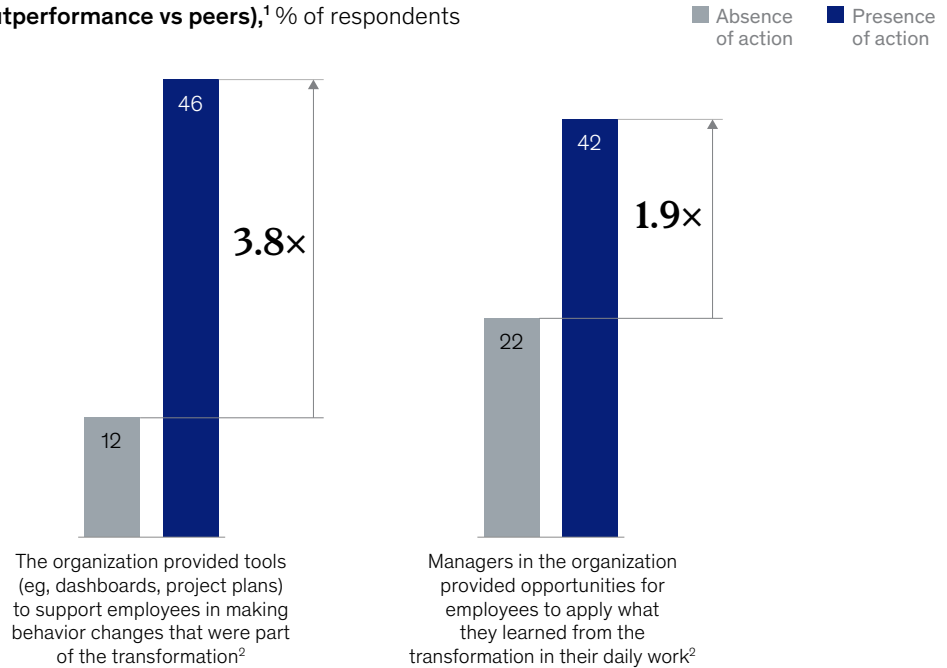
⁸ For more, see Marco Dondi, Julia Klier, Frédéric Panier, and Jörg Schubert, "Defining the skills citizens will need in the future world of work," McKinsey, June 25, 2021.

⁹ "Losing from day one: Why even successful transformations fall short," McKinsey, December 7, 2021.

Exhibit 4

Respondents whose transformations provided tools and opportunities for employees to apply new skills are more likely to report outperforming peers.

Success rate (outperformance vs peers),¹ % of respondents



¹Respondents who say their organizations' performance has been better or much better than competitors' since before their transformations began.

²These questions were used to determine whether the transformation enabled employees to apply new skills. We determined that the specific actions above were "present" in the transformation if respondents said their organizations implemented the action and that the action was effective or very effective at sustaining changes. Source: McKinsey Global Survey on transformation, Apr 11–25, 2023 (n = 472)

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A global equipment manufacturer and services provider was particularly effective at ensuring that the organization had the full complement of skills for the transformation to succeed. To create sustained behavior changes, the organization engaged more than 50,000 employees in more than 100 countries and in nearly a dozen languages in formal capability-building programs. These programs covered a range of foundational skills, from providing tactical project management support to project owners to advising senior leaders on how to motivate their teams through a mix of in-person, virtual, and digital delivery formats. The organization also developed programs to enhance employees' core business skills and expertise in topics across operations, sales, strategy, and finance. By shifting behaviors through skill building, it improved execution skills

across levels, from senior leadership to the front line, with more than 95 percent of participants recommending a broader deployment of these programs. According to executives, the organization now has a shared language and set of common tools, which are accessible by all employees, for sustaining the behavior changes made in the transformation. "Common language, common behaviors, uncommon impact" was a familiar refrain about its capability-building programs.

Rigor: The organization's discipline in executing rapid change

The survey results suggest that the successful execution of the transformation involves two actions: moving quickly to realize impact and embedding reinforcement mechanisms.

Moving quickly to realize impact. Time is of the essence when organizations are making improvements on the outcomes the transformation aims to address.¹⁰ As we've seen in earlier research, much of the value a transformation ultimately creates is typically achieved in its first few months.¹¹ Respondents reporting that the transformation

realized impact in less than six months are 1.2 times more likely to say their organizations outperformed peers. What's more, we also observed that 57 percent of respondents whose transformations realized impact in less than six months reported improving and sustaining organizational performance (Exhibit 5).

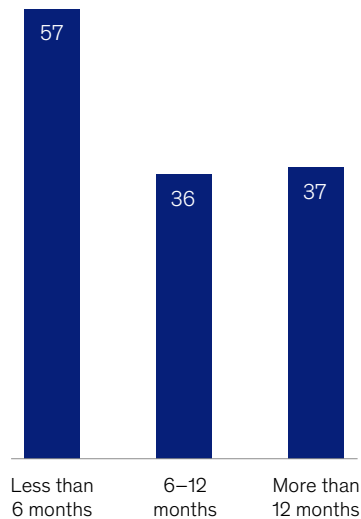
¹⁰ The survey asked respondents about five types of outcomes that their organizations' transformations aimed to address: financial, operational, or both; customer; employee; social, environmental, or both; and capability building.

¹¹ Kevin Laczkowski, Tao Tan, and Matthias Winter, "The numbers behind successful transformations," *McKinsey Quarterly*, October 17, 2019.

Exhibit 5

Respondents who saw meaningful improvements quickly are more likely to report improved and sustained organizational performance.

Success rate (improved and sustained organizational performance), by length of time to see meaningful improvements,¹ % of respondents



¹ Respondents who say their organizations' transformations have been very or completely successful at both improving their organizations' performance (eg, its profitability, return on capital, market value, or lead-time reduction) and sustaining those improvements into the present day.
Source: McKinsey Global Survey on transformation, Apr 11-25, 2023 (n = 472)

To speed things up, leaders will want to identify and execute quick wins (for example, on pricing and improved spending management) within the first six months and create a road map of iterative sprints for more complex transformation initiatives.

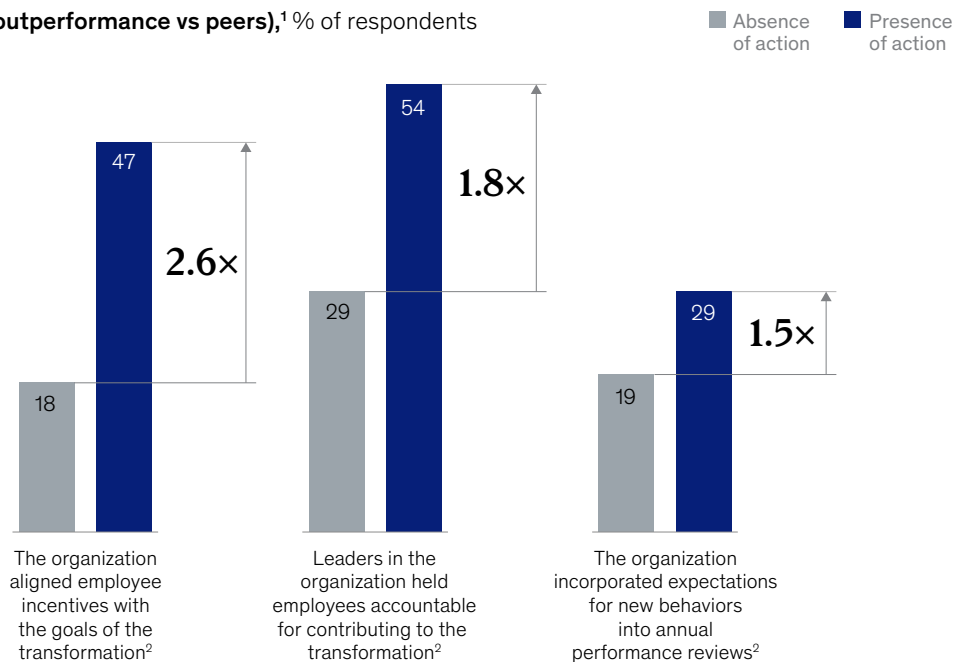
Embedding reinforcement mechanisms. Also critical to rigor is the implementation of new policies and procedures that reflect and reinforce the transformation's formal changes. Respondents who report the use of reinforcement mechanisms are 1.6 times more likely to say their companies outperformed peers.

To do this, companies can start by including transformation-related objectives in annual performance reviews, holding project leaders accountable, and tying employees' financial incentives directly to transformation outcomes. Survey respondents reporting that their organizations aligned employee incentives with the transformation's goals are 2.6 times more likely to report outperforming peers (Exhibit 6).

Exhibit 6

Respondents whose transformations reinforce the changes being made through a range of formal mechanisms are more likely to report outperforming peers.

Success rate (outperformance vs peers),¹ % of respondents



¹Respondents who say their organizations' performance has been better or much better than competitors' since before their transformations began.

²These questions were used to determine whether the transformation embedded reinforcement mechanisms. We determined that the specific actions above were "present" in the transformation if respondents said their organizations implemented the action and that the action was effective or very effective at sustaining changes. Source: McKinsey Global Survey on transformation, Apr 11–25, 2023 (n = 472)

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A power company executed change rigorously by incorporating transformation targets in its planning processes, including budgeting, and in the metrics used to evaluate executive performance. The organization also moved fast, implementing more than 700 initiatives to realize over \$150 million within the first few months of implementation. By the transformation's third year, the organization was incorporating transformation targets into annual reviews, holding employees accountable, for instance, by linking individuals' goals to their contributions to transformation targets. Through the transformation, the organization saw a 60 percent increase in its stock price over a three-year period. More than five years into the effort, the company has sustained the changes that it made.

Scope: The breadth of the aspiration

Finally, our results suggest that transformations with a broader scope tend to outperform peers. More specifically, these transformations aim to improve the organization's performance in more than one of the following dimensions that we tested in the survey—financial, operational, or both; customer; employee; social, environmental, or both; and capability building—which we define as striving for holistic impact. Respondents reporting that the transformation had a holistic aspiration are 1.9 times more likely to say their companies outperformed peers.

To do this, companies should set bold aspirations that aim to improve performance across a wide range of outcomes. Earlier research has found that much of a transformation's value is generated

by these types of growth initiatives, which shows that addressing both the bottom and top lines helps the organization reach its full potential through transformation.¹²

An energy company is pursuing an enterprise-wide transformation that's broad in scope by equally prioritizing change in three dimensions of the organization: its health (or organizational effectiveness), operational performance, and financial performance. The company is emphasizing each of these goals equally, based on an organization-wide mindset that is focused on sustaining long-term performance, rather than short-term gains alone. The bold aspiration also provides employees a shared, meaningful goal to compel them to modify their behaviors in pursuit of sustained gains, rather than focusing exclusively on short-term cost reductions.

To meet and exceed the ever-rising bar for organizational change, companies should consider how transformations can set them up for a true competitive advantage—in addition to achieving successful outcomes for the change effort itself. The results of our survey suggest that the seven actions noted above, rooted in the science of behavior change, can help accomplish both objectives. Through these actions, leaders can ensure that their organizations have in place four essential elements for transformation success—will, skill, rigor, and scope—that could give them a better chance at outpacing the competition in a time of constant disruption and change.

¹² Kevin Laczkowski, Tao Tan, and Matthias Winter, "The numbers behind successful transformations," *McKinsey Quarterly*, October 17, 2019.

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