

Insights into organization



How do I implement complex change at scale?

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Article at a glance

Why is this important?

Only 30 percent of change programs succeed. The leading causes of failure are employee resistance and management behaviors that do not support the desired changes. By tackling these obstacles head on, organizations can simultaneously unlock major improvements and boost their long-term performance.

What do I need to know?

To sustain large-scale change, organizations should heed four key insights: galvanize the organization around a few powerful and enduring transformation themes; build ownership for the change among employees at all levels; drive and measure improvements in health as well as performance; and test and learn before scaling up (but don't rely on just one pilot).

How do I make it happen?

These insights can be put into practice via a three-phase approach. First, set up the program for success with a structure that builds ownership, and use a next-generation program management office to identify and address barriers to change. Second, test and learn through pilots that demonstrate the relevance of the approach in a real-world implementation environment. Third, scale the effort by selecting the right roll-out model and building capability for change.

What is it worth?

After implementing a far-reaching organizational transformation, an internal revenue service increased revenue collected by 25 percent in two years. To tackle poor performance, a retail bank undertook a major turnaround that doubled profit per employee in four years and reduced cost-to-income ratio by a quarter. A basic materials company facing escalating costs and declining profits launched a major change program that saved tens of millions of dollars in costs and grew profits by 35 percent in one year.

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The secret of a successful transformation

lies in the ability to implement complex change at scale. Many organizations set bold aspirations, but few are able to design and execute wide-ranging change programs that deliver substantial and sustained performance improvement. The challenge is twofold: managing the implementation of many different improvement initiatives and keeping the organization's energy levels high during a process that can take years. Our research suggests that building a few critical design elements into a transformation program can make all the difference between success and failure.

Have you asked yourself lately . . .

- Why have we always struggled to achieve lasting improvements in performance?
- What can we do to spread the ownership for change beyond the leadership and right through to the front line?
- How do we summon the energy to keep our transformation going for as long as it takes without running out of steam?
- What are the signs that warn us when our program is going off track so that we can correct our course?
- How do we design pilots that will maximize our chances of success in scaling up the program?

. . . If so, then you might want to continue reading.

Why is this important?

Any organization embarking on a major transformation will be hoping to achieve a step-change in business results. Unfortunately, the odds are not good. Research by John Kotter in 1995 revealed that only 30 percent of change programs succeed.¹ Sixteen years on, nothing has changed; according to McKinsey research, the same success rate still holds true today.²

So why do so many programs fail? The main reasons are not to do with resources or budgets, but behavior: specifically, employee resistance and management behaviors that do not support the intended changes. Between them, these two factors account for more than 70 percent of failures.

And these failures come at a high cost: lost impact, employee fatigue, and squandered effort if a transformation has to be extended – or, worse, restarted. That was the fate of a program to reduce waiting times in the emergency room at a Canadian hospital. When in-patient initiatives were piloted in the neurosurgery unit all went well, but the scale-up to other clinical units ran aground because of a lack of leadership and widespread resistance to change. The hospital was forced to go back to the drawing board.

On the other hand, when an organization does succeed in implementing a large-scale change program, it can unlock impressive improvements in performance. What's more, successful change strengthens the overall health of the organization, which we define as its ability to create alignment, drive execution, and nurture renewal so as to sustain exceptional performance over time.

How does an organization get its change program right? The answer is: by attending to a few critical design elements. A McKinsey survey of nearly 2,000 executives with recent experience of major change found that programs were six times more likely to succeed if they were structured around readily understandable themes.³ Programs that encouraged employees to take the initiative and contribute to change had five times the success rate of those with a purely top-down thrust. And transformations with clear, unambiguous metrics and milestones were more than seven times more likely to succeed than those that lacked these elements.

¹ John Kotter, "Leading Change: Why transformation efforts fail," *Harvard Business Review*, March–April 1995.

² See Scott Keller and Colin Price, *Performance and Health: An evidence-based approach to transforming your organization*, McKinsey & Company, 2010, and *Beyond Performance: How organizational health delivers ultimate competitive advantage*, John Wiley, forthcoming.

³ "What successful transformations share: McKinsey Global Survey results," *McKinsey Quarterly*, March 2010.

What do I need to know?

A successful transformation program drives and sustains large-scale behavioral change to bring about real and lasting improvements not only in performance but also in the organization's overall health. Getting this right entails going beyond the conventional wisdom of change management and acting on four key insights.

Don't stop at a vision and action plan; galvanize the organization by developing a few powerful themes

Most change programs set a clear aspiration and define a series of initiatives to reach it. But how do the detailed activities on the ground connect to the big picture? All too often this link is missing or obscure, putting organizations at risk of the "100 lost projects" syndrome: many initiatives embarked upon but few completed thanks to a lack of leadership, control, and coordination. The results are predictable: poor outcomes, no confidence that progress is being made, and a lack of motivation just when it is needed most, as the grind of implementation sets in.

Since a large-scale transformation can take years to complete, it's vital that everyone in the organization understands where the program is heading and how far it has progressed. That's where the transformation themes come in. They are a mechanism for making desired outcomes meaningful, channeling energy towards them, and helping employees to see how their individual efforts contribute to the success of the program as a whole.

Most effective change programs are structured around a small number of core themes, typically between three and six. When a national internal revenue service organized an ambitious transformation to increase compliance and tax growth, it chose three themes that provided a clear rationale for individual initiatives. For instance, the theme of creating a solid organizational foundation underpinned a raft of initiatives to transform the culture, make management processes more professional, improve infrastructure, and ensure effective communication. As one wave of initiatives gave way to the next, the three themes remained constant, helping the organization to stay aligned and focused on its ultimate goal.

Everyone must own the change, so use both military- and marketing-style campaigns to win support

When transformations fail to achieve their full objectives, as most do, it's often through a lack of buy-in, skepticism, or outright resistance. Organizations therefore need to ensure that managers and employees feel a strong sense of personal ownership for the change program. That way, they will put far more effort into making it a success.

In our experience, building ownership calls for action on two fronts: tightening managers' formal accountabilities and mobilizing self-directed change deep in the organization. We liken the first to a military campaign and the second to a marketing campaign.

The military campaign drives delivery of the transformation through a clear governance structure with well-defined roles and objectives. Leaders are held accountable for outcomes at four levels: an executive steering committee has overall responsibility for the effort; a program management office (PMO) is charged with coordinating the program; executive sponsors provide leadership and guidance; and initiative teams are charged with meeting individual targets and milestones.

The marketing campaign aims to enlist the active involvement of staff at every level by tapping into the informal networks that play a powerful role in communication and motivation. Effective campaigns borrow tactics from viral marketing. One telecommunications company issued a “rogue” comic strip that expressed and corrected cynical views of the change program, and “leaked” a fly-on-the-wall video of a senior team’s working session to the intranet. Efforts like these can be kicked off by the corporate center but must then be left to spread organically from peer to peer, relying on curiosity rather than push from the top to reach a wide audience.

Short-term performance gains aren’t everything; regular health checks are needed too

Most change programs track their impact on near-term business performance through key performance indicators (KPIs). Though necessary, this is not sufficient: when programs focus not just on performance but also on health, they are 1.6 times more likely to achieve their long-term goals.⁴ By failing to monitor health factors, organizations risk missing warning signs – such as a dip in staff engagement – that could compromise their long-term performance as well as the success of their transformation.

To gauge progress accurately, organizations should use an integrated set of metrics that spans operational improvements, health indicators, and bottom-line results:

- **Initiatives.** Progress should be tracked not just in terms of time and budget but also against key operational indicators such as cycle time and quality. One insurance company counted letters of complaint as an easy-to-see marker of customer satisfaction.
- **Health.** Shifts in mindsets and behaviors should be quantified and monitored through regular health checks. One aerospace company conducted a quick pulse check among frontline staff every few weeks throughout its change program to measure progress on five leading health indicators: coaching and learning, accountability, innovation, trusted leadership, and job satisfaction.
- **Performance.** Measuring key business outcomes such as revenue, cost, and risk enables managers to verify that improvements are being delivered where and when expected, and to check they are not causing unforeseen consequences elsewhere in the organization.

⁴ “What successful transformations share: McKinsey Global Survey results,” *McKinsey Quarterly*, March 2010.

- **Enterprise value.** Shareholder value is the ultimate business outcome for companies, while not-for-profit and governmental organizations should monitor key stakeholder value.

Test and learn before scaling up, but don't expect one pilot to be enough

In a wide-scale transformation effort, improvement initiatives need to be piloted in selected units before they are rolled out across the whole organization. Leaders are often impatient to get a pilot under their belt so they can press on with implementation, but driving change too quickly can have unwanted effects.

When a high-tech company was trying to cut costs and improve efficiency, it decided to reorganize its service teams' shift patterns around formal schedules. After a successful pilot in one region, the new model was quickly rolled out worldwide. To managers' surprise, some regions put up stiff resistance: staff were proud of their way of working and resented having change imposed on them from above. Implementation had to be delayed while staff were consulted and the program was adapted to local needs. In the end, success rested on building ownership region by region.

This example reflects an inconvenient truth about pilots: their high success rate often derives from the plentiful resources and management attention they attract. When this support dries up or is spread thinly across a full implementation, the results can look very different. For that reason, pilots held at several sites simultaneously yield more useful lessons than a one-off pilot. Some organizations use a double-pilot approach, first conducting a resource-intensive "proof of concept" and then implementing the approach in a more typical environment across several locations in a "proof of feasibility" to make sure it is replicable at scale.

This approach proved its worth when a European healthcare provider was seeking to increase the time ward staff spent on patient care. After a successful initial pilot at one location, the organization created an "industrial-strength" model robust enough to be rolled out more broadly, and then tested it in a second pilot at multiple sites. This "go slow to go fast" pacing led to a rapid uptake of the program when it was eventually rolled out across the country.

How do I make it happen?

Before an organization reaches the implementation stage in a transformation, it should have set a clear aspiration, made a thorough assessment of its current position, and carefully architected the required actions, as outlined in the sidebar below. Having completed these preparatory steps, it can now put its plans into action by setting up the program for success, testing and learning, and bringing the effort to scale.

The “five frames” of transformational change

Making change happen in a large organization is a major undertaking. McKinsey has developed an approach called the “five frames” to help organizations get it right. Each frame is summed up in a single word beginning with “a” – aspire, assess, architect, act, and advance – to make it memorable, and explained in the form of a simple question that translates into separate challenges for performance and health:

1. **Aspire: Where do we want to go?** Developing a change vision and targets, and determining what “healthy” means for the organization
2. **Assess: How ready are we to go there?** Evaluating the organization’s ability to achieve its vision and targets, and uncovering the shifts in mindsets that are needed to drive organizational health
3. **Architect: What do we need to do to get there?** Developing a concrete, balanced set of initiatives to improve performance, and designing a mutually reinforcing set of interventions to influence behaviors and mindsets
4. **Act: How do we manage the journey?** Designing an effective transformation structure with the right scale-up approach for each improvement initiative, and ensuring that energy for change is continually infused and unleashed
5. **Advance: How do we keep moving forward?** Making the transition from a transformation focused on a one-time step change to an era of continuous improvement, and building leadership capabilities to sustain high performance.

This article focuses on frame 4, “act.”

1 Set up the program for success

Leaders of successful transformations spend considerable time on developing a powerful transformation story: an emotionally compelling narrative that articulates the desired end state to make the transformation concrete and meaningful. The story should be co-created by employees to build ownership, and should answer their questions about why change is needed, how it will affect them, what it will look like, and how they can support it through their behavior and actions.

The story should be structured at three levels: first, a *headline* that sums up the organization's broad aspiration and vision; second, a few core *themes* that are distinct, enduring, and relevant to the whole organization; and third, a set of messages tailored to the individual *initiatives* that will transform areas such as back-office operations, branch or store layouts, frontline sales, and performance-management systems.

Once this is in place, the next priority is to establish a performance-management system capable of generating timely information, and combine it with a systematic approach to building ownership and removing barriers to change (using the "military" and "marketing" campaigns described above). Many organizations use some form of program management office (PMO) to help with these tasks, but its role is often limited to reporting on performance indicators to track progress. However, we believe that a PMO can play a broader role in many cases by bringing change management and content expertise to bear on facilitating program delivery, as explained in the sidebar below.

Next-generation PMOs

Research shows that transformations are three times more likely to succeed if they systematically identify the barriers to effective implementation and design mechanisms to address them.⁵ Next-generation PMOs act on this insight, identifying obstacles to change for each initiative as part of a thoughtful and nuanced approach. Depending on the needs of a particular transformation, their role may include defining and developing the mindsets required to support new behaviors, devising and executing marketing campaigns to secure broad ownership for the program, and providing targeted expertise to overcome specific bottlenecks.

The type of intervention required from the PMO will typically vary from one initiative to another and over the duration of the program, so its staffing should be adjusted accordingly. This helps to create the kind of dynamic working environment and compelling development opportunities that attract high performers. Managed in this way, a next-generation PMO not only facilitates the transformation but becomes a leadership factory for the whole organization.

2 Test and learn through pilots

Pilots are the means to test and tailor the roll-out model, and should not be rushed: care and time spent here will smooth the path to full-scale implementation. One key decision is where to hold the pilots. The units selected should be representative, varied by region, culture, and performance level, and able to offer clear headway for improvement. One company that was transforming its purchasing chose categories where the savings opportunities were not only considerable in their own right, but also readily translatable to other contexts, for instance, through the application of clean-sheet costing techniques. This ensured that successful pilots would demonstrate the wider relevance of the approach as well as yielding immediate gains.

⁵ "What successful transformations share: McKinsey Global Survey results," *McKinsey Quarterly*, March 2010.

Even more important, pilots should start in the units where there is most enthusiasm and capability for change so that they can quickly demonstrate tangible wins and set new performance standards. One consumer goods company chose to pilot a lean operations program in an underperforming unit because the managers had a keen appetite for learning. The pilot boosted output by 50 percent in six months, creating powerful momentum for the scale-up.

When organizations have tested the concept in a first round of pilots and are embarking on a second round to test the scale-up model, different considerations apply. As we saw earlier, the priority here is to mimic the roll-out environment as closely as possible, with skills, motivation, and improvement opportunities that mirror those of the organization as a whole.

As well as enabling testing and learning, pilots serve another function: building the capability to lead transformation. Managers in the pilot units act as apprentices in the new approach, developing their skills so that they can guide and support peers from other units during the eventual roll-out. For this to happen, they need regular coaching and feedback as well as access to experienced mentors in senior management.

Naturally, the pilots should be rigorously monitored and evaluated so that any early warnings can be picked up and the roll-out model refined. With this in mind, the PMO should conduct performance dialogues with pilot leaders as often as every other day. Successes should be communicated as they occur: when an organization celebrates small “wins” – say, a visible drop in customer complaints – it creates momentum for bigger improvements.

3 Bring the effort to scale

After learning from the pilots, organizations need to decide how to scale up the change. There are three main approaches to suit different circumstances and needs.

- In **linear** scale-ups, implementation proceeds sequentially in one area after another. This is the best choice if the organization is not facing a crisis, the roll-out affects only a few areas, the stakes are high, capable team members are in short supply, deep expertise is needed, there is strong resistance to change, and the toolkit and solutions require extensive customization.
- In **geometric** scale-ups, implementation happens in waves, with each successive wave much larger than the last (say, two sites in the first wave, four in the second, sixteen in the third, and so on). This approach makes sense if many areas need to be transformed and a linear scale-up would take too long, multiple areas share some common features, capable implementers are readily available, and the organization has the capacity to absorb the changes.

- In **“big bang”** scale-ups, implementation takes place in all areas at once. This requires a lot of resources, but only for a limited period. This approach may be the right one if the need for transformation is urgent, multiple areas share many common features, little resistance is expected (or an appetite for change already exists), and a standard toolkit and approach can be employed.

Whichever form of scale-up is used, it should focus not only on hitting improvement targets but also on building leadership capability for change. Leaders from the pilots should be actively involved in teaching peers and solving problems. Practical development programs, coaching, and mentoring should be provided on a wide scale to reach hundreds or even thousands of managers.

During the scale-up, the metrics tested in the pilots should be embedded in the performance management system through balanced scorecards or other tools. To keep employees engaged, the transformation story must be told and retold through a communications program that appeals to both head and heart and celebrates victories large and small. Every initiative should be linked back to the core themes and transformation headline.

Although the roll-out may look like the last step in a transformation, it is far from the end of the story. Once all the improvement initiatives have been put in place, the organization needs to gear itself up for continuous improvement by creating knowledge-sharing mechanisms, instilling a culture where feedback and coaching are prized, and promoting calculated risk-taking as a means of learning.

What is it worth?

A major internal revenue service undertook a far-reaching organizational transformation to increase compliance and tax growth, with initiatives spanning systems, processes, culture, governance, and infrastructure. By galvanizing the organization around core transformation themes and managing performance and health with equal rigor, the program increased revenue collected by 25 percent in two years. At the same time, it helped expand the country's tax base across all tax types, improve voluntary compliance by strengthening service quality, and boost customs compliance as trade grew rapidly.

A large retail bank that ranked bottom in class for performance nationally undertook a multi-year turnaround with wide-ranging initiatives that aimed to improve productivity and risk management and create an engaged and capable workforce. Impact was tracked at multiple levels, including progress in individual initiatives, bottom-line value, and shifts in the culture. After four years, profit per employee had doubled, cost-to-income ratio had fallen by a quarter, and employee satisfaction ratings had risen from 45 to 85 percent.

A basic materials company facing declining profits and escalating input costs launched a transformation with aggressive improvement targets and a focus on behavioral change. It aimed to improve decision making and performance management and instill a mindset of continuous improvement. Change agents trained during pilots supported intensive mini transformations at multiple sites across the business. The solutions developed here were then incorporated into an organization-wide toolkit. The program boosted profits by 35 percent in a year, reaped tens of millions of dollars in cost savings, and strengthened the company's leadership capability substantially.

The ability to shape and drive large-scale transformations is key to maintaining high performance over the long term – and sometimes even to survival itself. Such transformations are hard to get right, yet organizations that approach them with rigor, imagination, and commitment can unlock tremendous energy and deliver spectacular and sustainable performance improvements.

Insights into organization

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