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Why transformations stall—and where only CEOs make the difference

Five common behavioral patterns can cause change efforts to falter. Know the warning signs—and what to do about them.

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The toughest transformation problems aren't always strategic or operational. They're human: the instinct to play it safe, protect what's ours, trust who we know, and wait for change to pass. Individually, these behaviors can seem perfectly rational. Collectively, they can bring a transformation to a standstill. On this episode of *The McKinsey Podcast*, McKinsey Senior Partner Kurt Strovink and Partner Mathew Lee join Global Editorial Director Lucia Rahilly to discuss five collective-action problems that inhibit transformation success, and what leaders need to know to spot them early—and solve them.

The *McKinsey Podcast* is cohosted by Lucia Rahilly and Roberta Fusaro.

The following transcript has been edited for clarity and length.

Five problems plaguing transformations

Lucia Rahilly: Your research makes the case that play a vital role in the success of organizational transformations. Talk to us about where CEOs should draw the line during a transformation between responsibilities that can be delegated and those that can't.

Kurt Strovink: CEOs set the conditions, in human terms, for what makes a transformation successful. Part of the CEO's role is to break collective-action problems in large organizations trying to change. There's something nondelegable around creating those enterprise-wide incentives for change. There are many other important people—chief transformation officers, CFOs, business unit leaders—who play vital roles in this. But we think the CEO has a unique enterprise-wide role as the senior-most integrating officer of a company.

Lucia Rahilly: I want to get into what these collective-action problems are. But before we do, tell us at a high level: What does that term mean?

Kurt Strovink: A collective-action problem is one where there's an outcome that's clearly superior for the enterprise—for the collective—but that's inaccessible unless individual incentives are aligned. We think a CEO plays a huge role in aligning individual and institutional incentives. That's why we say part of the CEO's role is to break collective-action problems in transformations.

Lucia Rahilly: You've set out a helpful model that categorizes collective-action problems into five areas: the negotiated settlement, the hoarding habit, the lure of the local, the trustworthy few, and the finite program. Give us a high-level explanation of each.

Mathew Lee: Very quickly, the negotiated settlement is the tendency for teams to negotiate targets down to something comfortable rather than aiming for full potential. The hoarding habit is where people hold onto information because they're not sure how it will be used; for example, maybe in the past they shared information that was used in ways they didn't expect. The lure of the local is that individuals, functions, or teams are loyal to the people they work most closely

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with day to day; they optimize for their own functions and teams, sometimes at the expense of enterprise-wide goals.

One of my personal favorites is the trustworthy few: Everyone knows the ten, 15, maybe 20 people we all like and trust, and every project of consequence goes to those same people. That limits execution capacity to just those people and misses the opportunity to democratize change and build capabilities deep into the organization.

Last is the finite program, where transformation is seen as separate from day-to-day work and something to endure until it finishes—six months, nine months, two years—before going back to old ways of working.

What’s really striking is that these patterns are universal. We really encourage CEOs and leadership teams to understand these collective-action problems because each has different symptoms, signposts, and interventions.

Lucia Rahilly: Should CEOs think about these five categories separately, or are they just different manifestations of the same dynamic?

Kurt Strovink: I’d say they’re discrete and unique, but related. They trace to underlying human behaviors that create incentives—not negatively intended—and without being systematically countered, they give rise to suboptimal outcomes. They follow a pattern across the life cycle of transformations.

Warning signs to watch for

Lucia Rahilly: Let’s get into the “how”—how CEOs can address collective-action problems to enact transformation successfully. First, how might leaders spot one of these problems early—before the quarterly numbers or earnings reports reveal it?

Mathew Lee: CEOs should observe whether teams are setting targets rooted in what feels safe and achievable and anchored to prior-year results rather than taking a fact-based, less constrained, full-potential view. That’s when the negotiated settlement may be taking hold—if a lot of energy is spent explaining why something can't be done, rather than what needs to be true to get it done.

Kurt Strovink: Or "we tried it before, and it had this outcome"—that's received wisdom in the organization, and it can be another kind of constraint.

Mathew Lee: Absolutely. An early symptom of the hoarding habit is duplication of effort across teams—a sign that there isn't communication or information sharing. Another symptom is opposing efforts, where different teams in the same business unit work against each other. And to spot the lure of the local, listen for language like "my goals, my budget, my team" rather than enterprise outcomes. That's an early-warning signal surfacing in the language itself.

Kurt Strovink: That's a great point. I was spending time with a CEO recently who made a beautiful distinction: He said it's increasingly not about ownership, but stewardship.

Lucia Rahilly: That's an interesting semantic correction, too, because for so long we heard that people on an upward trajectory should take an "ownership mindset."

Kurt Strovink: Right. What we want is proactivity, taking responsibility, and stewardship. What we don't want is people policing the perimeter of their control and authority.

Mathew Lee: And we're not saying people shouldn't have that personal and team-oriented drive. It's about making sure incentives are aligned so that what they're doing builds on that stewardship.

Let me mention one more early-warning signal we see in almost every transformation: the trustworthy few. The obvious symptom is seeing the same small group of people in the room. A less obvious one is seeing people wait for that small group to approve or opine before they're willing to move forward—that's the trustworthy few creating bottlenecks. It's important to address early because, as I mentioned, all these warning signs show up well before financial results deteriorate. It's much easier to address them before they become the norm and get embedded deeper in the organization.

Kurt Strovink: I'll add a couple more warning signs. Sometimes when people say things aren't achievable straight out of the gate, that's a sign there hasn't been a culture of challenge or full-potential thinking instituted. Another marker is when people can't spare leading talent for transformation roles—when organizations can't find enough quality people to populate transformational objectives. That means either they're not developing people in the direction of the enterprise's most important priorities, or they don't have enough of them and haven't figured out how to develop more people into the "leadership factory," as we sometimes call it.

Where CEOs can intervene

Lucia Rahilly: Let's turn to interventions, starting with negotiated settlements. How can CEOs create an environment where people pursue their full potential rather than negotiating down on ambition?

Mathew Lee: A negotiated settlement is one of the most consequential collective-action problems because it happens at the onset of any transformation and its impact compounds over time. People have been trained, over many years of watching how incentives work in a corporate environment, to treat goal setting as a promise. If you don't hit what you said you would, that's bad—it shows up in your personal and financial incentives, and those of your team. So people naturally underpromise and try to overdeliver.

Lucia Rahilly: Right—that's the time-tested talent maxim. We've all used that at some point.

Mathew Lee: Exactly, and it's rooted in human psychology. We know from research that failures loom larger than successes. So how do we push past this human instinct to fear failure? CEOs should pair achievable, bottom-up goals from different teams with a fact-based, top-down view of full potential. That bottom-up, top-down combination is typically what gets organizations to a true full-potential view. If the ambition doesn't feel like enough of a stretch beyond what's immediately attainable, you haven't found the constructive tension—or the aspiration that encourages greater creativity.

Kurt Strovink: I'd go so far as to say that if a target hasn't been set where the team says, "We're not sure how we're going to achieve that today," it's probably not ambitious enough.

Lucia Rahilly: Kurt, can I follow on that? This is partially selfish, but I think it's widely applicable. How does AI change the calculus here? Leaders and their teams may not be sure what a realistic stretch even looks like anymore. Is it harder now to set an aspiration that's bold enough to break through organizational inertia but still achievable and doesn't burn people out?

Kurt Strovink: Actually, I'd say it's potentially easier, and here's why. One thing we often talk about in target setting is that CEOs are well-advised to think about targets as having a "solutioned" portion—meaning we know how we're going to get there, even if we haven't executed on it yet—and an "unsolutioned" portion, meaning we don't yet know how we'll get to that target. A target set by a CEO should be solutioned plus unsolutioned.

That was true three or five years ago, but it's going to get even more expensive not to do that going forward with AI. It conditions the organization to know it's operating in a space that's loosely wired, where nobody has a perfect crystal ball. We're going to have to lean into an uncertain future and use our wits, our ability to learn, continuous improvement, and teamwork to hit higher targets that aren't clear today. That's the discipline—and the mindset—a CEO wants the organization committed to, emotionally as well as substantively.

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Lucia Rahilly: Let’s turn to the hoarding habit. How can CEOs foster a culture where transparency and asking for help become the norm rather than something employees resist?

Kurt Strovink: CEOs have to flip the culture from one of fear to one of openness and give people the incentives and conditions to do that. Remember, the CEO’s role is to set conditions for enterprise change and transformation, not to govern every change as the protagonist. So the question becomes: How do you set those conditions?

First, successful CEOs demand radical transparency—a single source of truth, usually something technologically available in an always-on tool that they, and everyone else, know they can check at three in the morning. That’s radical transparency.

Second, you run meetings as problem-solving sessions against what’s in those always-on, transparent dashboards—not arguing about whether something is real. By that point, the meetings are about solutioning. They don’t blame; they solve. They reward people who bring forward ideas, especially about their own shortcomings, and who ask for help.

And that’s the last thing: you incentivize asking for help. You create conditions so people feel sponsored and rewarded—not just financially, but in how you regard their leadership. You might embed this into a leadership practice with your CHRO [chief human resources officer]. And as a CEO, you can spotlight successes, share stories: “Mat did this great thing. Nobody told him he had to come forward with this. He did. Here’s what happened; here’s the change it created.” You can spotlight that as a CEO.

Lucia Rahilly: Talk to us about the lure of the local. What can CEOs do about this particular collective-action problem?

Mathew Lee: We see two major interventions. Many organizations overemphasize the star quality or actions of individual overachievers and not the people toiling behind the scenes in support of broader goals. If we don’t solve that, things get optimized locally and are often out of sync with enterprise-wide goals.

The first intervention is making sure enterprise-wide goals are translated locally in ways that resonate with everyone. The second is incentives: How do you tie individual actions to enterprise-wide goals? We looked at incentive plans across more than 50 organizations and found that when individual goals are linked to enterprise-wide financial goals, results are much better. That's not surprising. What is surprising is that most organizations only do this at the executive and senior-management level. So the question becomes: How do you make sure incentives at the middle-management layer, and across the broader organization, are also linked to enterprise-wide goals?

Lucia Rahilly: That's an interesting segue to the next collective-action problem, the trustworthy few. We're talking about organization-wide incentives, and now we're confronted with this group of high achievers that leaders trust most. How do you address that?

Kurt Strovink: One important action CEOs can take is to change the frame from "who do you trust to execute well today" to "who are you going to build into the next generation you'll trust?" In other words, who is the larger list of people you can develop through this program? This is a beautiful opportunity for skill development. CEOs can insist on a broader group of people. Mat and I, along with our coauthors, usually find that when transformations engage only 5 percent to 7 percent of the organization, they don't do as well. When they engage 20 percent to 25 percent or more, that's the inflection point where transformations really take off and tend to succeed. You have to democratize participation and treat this as a human-capital elevation program.

Lucia Rahilly: Does either of you want to say more on the finite program and how leaders can counter that challenge?

Kurt Strovink: A couple of thoughts. First, never speak of transformation as a program coming to an end. It's not something you did for a year or two before going back to the old way of doing things. In everything you say, teach, frame, or coach, emphasize the ongoing nature of improvement: We're going to get better each year, keep refining our management system, and keep improving. That's a mindset CEOs can burn into their organizations. Second, think about how transformational work integrates with core business execution and performance, and make sure those are merged—so transformation isn't happening in one part of the organization while core business performance happens in another.

What getting it right looks like

Lucia Rahilly: Can you share an example where changing one CEO's behavior fundamentally altered the trajectory of a transformation?

Kurt Strovink: One CEO's practice was to bring senior leaders together and discuss what was possible to achieve, maybe negotiate a bit with them, and try to push them to achieve higher goals. He experienced a shift when he called it acting "as if" rather than simply pursuing full potential. He learned that by pushing the organization into thinking "as if" it could achieve more, a lot was unlocked. The organization itself then felt a second boost of energy because people felt more confident that they had outrun a previous version of themselves.

A second example is the idea of flipping from thinking about ownership to stewardship. People in the organization should be educated and coached to understand that they're in their positions for a short period relative to the company's existence. But while there, they have the responsibility to be deep and abiding stewards. Instituting that change was one way I saw a CEO leave his indelible leadership mark. It also reinforced the kind of leader and long-term orientation the company wanted. There was a humility in it; there was a ferocious kind of courage in it. And it was sustainable.

Lucia Rahilly: Mat, if there's one mindset you hope CEOs take away from this research, what is it?

Mathew Lee: Transformation and change are fundamentally about people and culture, not about programs, tools, or initiatives. Those things matter, but the five collective-action problems we've discussed aren't signs that people lack commitment or capability. They're predictable responses to incentives, systems, identity, uncertainty, and the status quo. That's precisely why the CEO's role is so important and nondelegable: a transformation's success isn't determined by whether these problems emerge. We know they will; we've seen them emerge over and over. Its success is determined by whether the CEO recognizes these problems early enough to help shape the conditions for the organization and its people to overcome them.

Kurt Strovink: Mat and I have spent a lot of time with different organizations on this. I've observed that CEOs who succeed at governing and shaping transformations over time often grow the most as leaders themselves. There's a link between how they evolved, the grace they gave themselves to experiment, what they learned was possible in the role, and how they explored the structural potential of the CEO role in ways that weren't apparent when they first took the position. There's a huge correlation.

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