

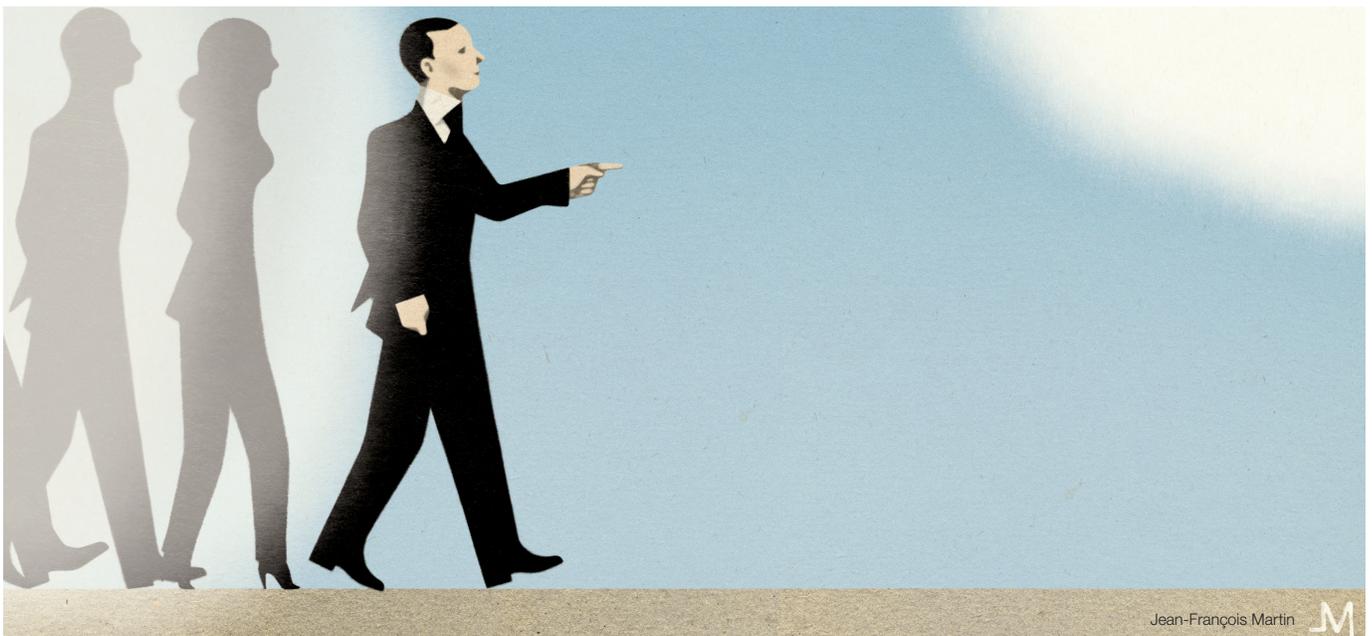
# The science of organizational transformations

New survey results find that the most effective transformation initiatives draw upon four key actions to change mind-sets and behaviors.

When making large-scale organizational changes, the design of a transformation's initiatives is not a matter of guesswork. Rather, the results from a new McKinsey Global Survey on the topic<sup>1</sup> suggest that companies that design their initiatives to support desired shifts in mind-sets and behaviors see the most successful transformations.<sup>2</sup>

Prior McKinsey research on transformations confirms that change efforts are hard work and that implementation is critical to overall transformation success.<sup>3</sup> The latest findings suggest that investing time and effort up front to design a transformation's initiatives also matters. According to the new results, the most effective initiatives involve four key actions: role modeling, fostering understanding and conviction, reinforcing changes through formal mechanisms, and developing talent and skills. These actions are critical to shifting mind-sets and behaviors.

But it's not enough to design a portfolio of initiatives based on one, or even two, of these actions. When executives report that their companies used all four, the odds of a successful transformation are much



higher than if just one were used. The process of *how* initiatives are designed is critical too. When companies take a systematic approach to prioritizing initiatives and involve input from a range of company stakeholders, executives are more likely than average to report successful transformations.

### **Effective design is not guesswork**

Psychological research and McKinsey's experience point to four specific actions that drive changes in mind-sets and behaviors—the very changes that underlie successful transformations.<sup>4</sup> We asked executives about the use of all four at their companies (see sidebar, “Changing mind-sets and behaviors through the ‘influence model’”).<sup>5</sup>

Of these four, respondents report that their companies' initiatives most often fostered a common understanding and reinforced changes through formal mechanisms; initiatives involved role modeling least often. Regardless of the actions taken, though, changing mind-sets and behaviors is hard work. Majorities of respondents believe it was difficult for their companies to implement initiatives that drew upon each of the four actions, highlighting the general challenge of executing transformations shown in previous McKinsey research.

Executives also report that no one action is the most important. The use of each action correlates similarly with a transformation's overall success, defined as the successful improvement of company performance (improved profitability, for example) *and* preparation for sustained, long-term performance (improved capabilities, for example, or positive changes in organizational culture).<sup>6</sup> For instance, initiatives that focus on developing talent and skills have roughly the same effect on a transformation's success as initiatives that emphasize fostering understanding and conviction. Rather than drawing upon only a subset of these actions in designing initiatives, winning organizations take a comprehensive approach to

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Among the four actions that support changes in mind-sets and behaviors, successful transformations are nearly eight times more likely to use all four than to use just one.

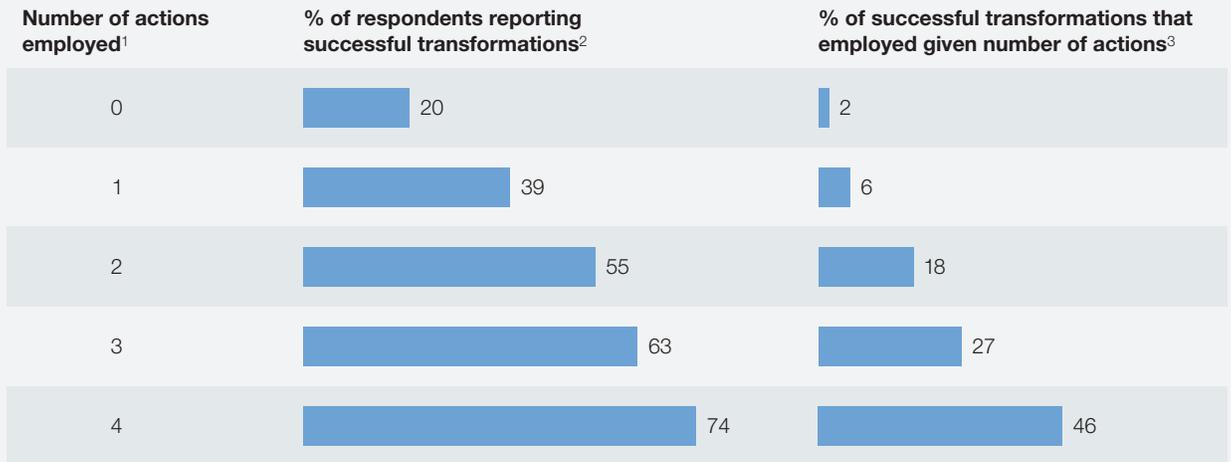
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## Changing mind-sets and behaviors through the ‘influence model’

For employees (and organizations) to move from current to desired mind-sets and behaviors during a transformation, McKinsey research and experience indicate that the most effective transformation initiatives use the principles of the “influence model.” Transformation initiatives are most successful at shifting mind-sets and behaviors when they draw upon all four components of this model, which were tested in the survey:

- *Role modeling.* When company leaders walk the walk and role model desired mind-set and behavior shifts, it’s more likely that employees will follow suit. Leaders can role model by setting examples of desired behaviors in their day-to-day interactions and by enlisting help from influential employees at all levels to champion the change.
- *Fostering understanding and conviction.* If employees understand the reasoning behind the changes they’re asked to make, they’re more likely to act in support of these changes. Organizations can foster this understanding and conviction by communicating a compelling “change story” across the organization, making sure employees know why changes need to happen and what they will involve, and ensuring that the change story is meaningful and relevant.
- *Reinforcing change through formal mechanisms.* Structures, systems, and processes are all formal mechanisms that can support employees’ efforts to adopt new mind-sets and behaviors. Organizations can reinforce desired changes by adjusting these mechanisms—for example, setting individual and organizational performance goals and motivating people through both financial and nonfinancial incentives—so they align with the changes.
- *Developing talent and skills.* When employees have the skills required to act in a new way, they are more inclined to make the desired changes to mind-sets and behaviors. Organizations can develop their talent and help build new skills by assessing current—and anticipated—capability strengths and gaps, and by offering a range of targeted development opportunities that equip employees to perform in support of the changes.

**Exhibit 1    The more actions that a transformation employed, the more likely executives are to rate the effort a success.**



<sup>1</sup> The 4 possible actions are role modeling desired changes in mind-sets and behaviors, fostering understanding and conviction about why changes are important, establishing formal structures and mechanisms to reinforce changes, and developing talent and skills to support changes. For 0 actions, n = 91; for 1 action, n = 165; for 2 actions, n = 293; for 3 actions, n = 384; and for 4 actions, n = 544.  
<sup>2</sup> We define a successful transformation as one that, according to respondents, was either moderately or completely successful at both (a) improving the organization’s performance and (b) equipping the organization to sustain improvements over time.  
<sup>3</sup> Figures do not sum to 100%, because of rounding.

changing mind-sets and behaviors by using all four. The more actions employed, the more likely executives are to rate the transformation a success (Exhibit 1). What’s more, successful transformations are nearly eight times more likely to use all four actions than to use just one.

**Be complementary, innovative, and focused on strengths (as well as weaknesses)**

There is no silver bullet for the effective design of transformation initiatives. But the results highlight a number of characteristics that can affect the overall odds of transformation success. Along with the use of multiple actions to change mind-sets and behaviors, transformations are more likely to be successful when the initiatives complement one another and align with the broader organizational context. When all of these elements—comprehensiveness, complementarity, and context—are in place, 76 percent of transformations are successful, compared with 22 percent when none of these elements are present.

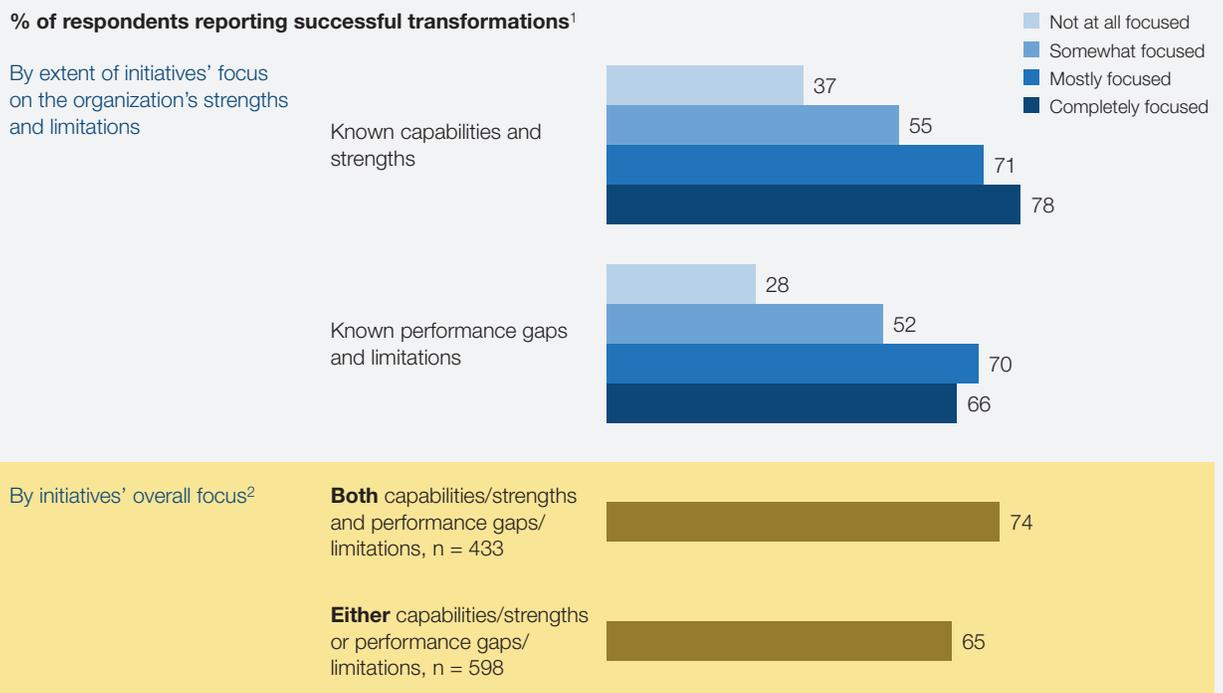
The results also suggest that simply repeating the same old initiatives will not get organizations the change they seek. When respondents say their companies’ initiatives were completely similar to initiatives the organization had used before, only 31 percent report a successful transformation. Conversely, when companies try completely new initiatives, 64 percent report success.

Respondents also note that transformation initiatives tend to focus on improving an organization’s weaknesses, rather than building on its strengths. Despite this proclivity, initiatives designed to focus on weaknesses appear less effective than those focused on strengths (Exhibit 2). But transformations are more likely to be successful when executives say the initiatives addressed both strengths *and* weaknesses, rather than one or the other.

### The process of design matters, too

Initiatives that are well designed on paper don’t always translate into a successful transformation in practice, though. As the results confirm, the process by which initiatives are designed—especially how they are prioritized and who’s involved in their design—is critical to a transformation’s success.

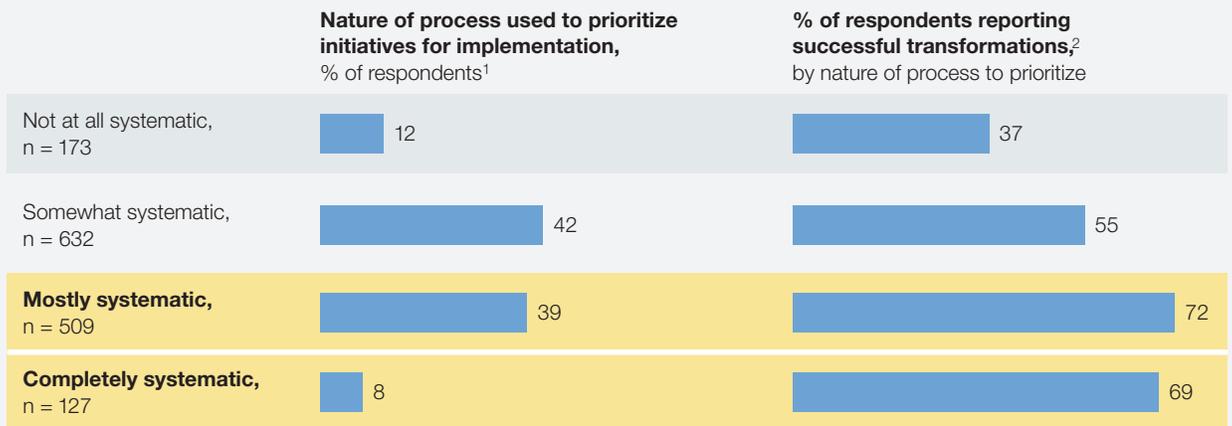
**Exhibit 2 A transformation’s focus on weaknesses yields a less effective outcome than a focus on strengths—but efforts are more successful when they address both.**



<sup>1</sup> We define a successful transformation as one that, according to respondents, was either moderately or completely successful at both (a) improving the organization’s performance and (b) equipping the organization to sustain improvements over time.

<sup>2</sup> Includes respondents who say their companies’ transformation initiatives focused “mostly” or “completely” on organizational strengths, limitations, or both.

**Exhibit 3** When companies use a more systematic approach to prioritizing transformation initiatives, the odds of success soar.



<sup>1</sup> Figures do not sum to 100%, because of rounding.

<sup>2</sup> We define a successful transformation as one that, according to respondents, was either moderately or completely successful at both (a) improving the organization's performance and (b) equipping the organization to sustain improvements over time.

For instance, when companies adopt a more methodical approach to prioritizing their initiatives, respondents report a higher rate of transformation success (Exhibit 3). But there's no single best measure for companies to use when prioritizing their initiatives. Of the four criteria we asked about (expected cost, risks, time to impact, and scope of an initiative's impact), no one factor correlates more closely than the others with overall transformation success, suggesting that each one is equally important to consider.

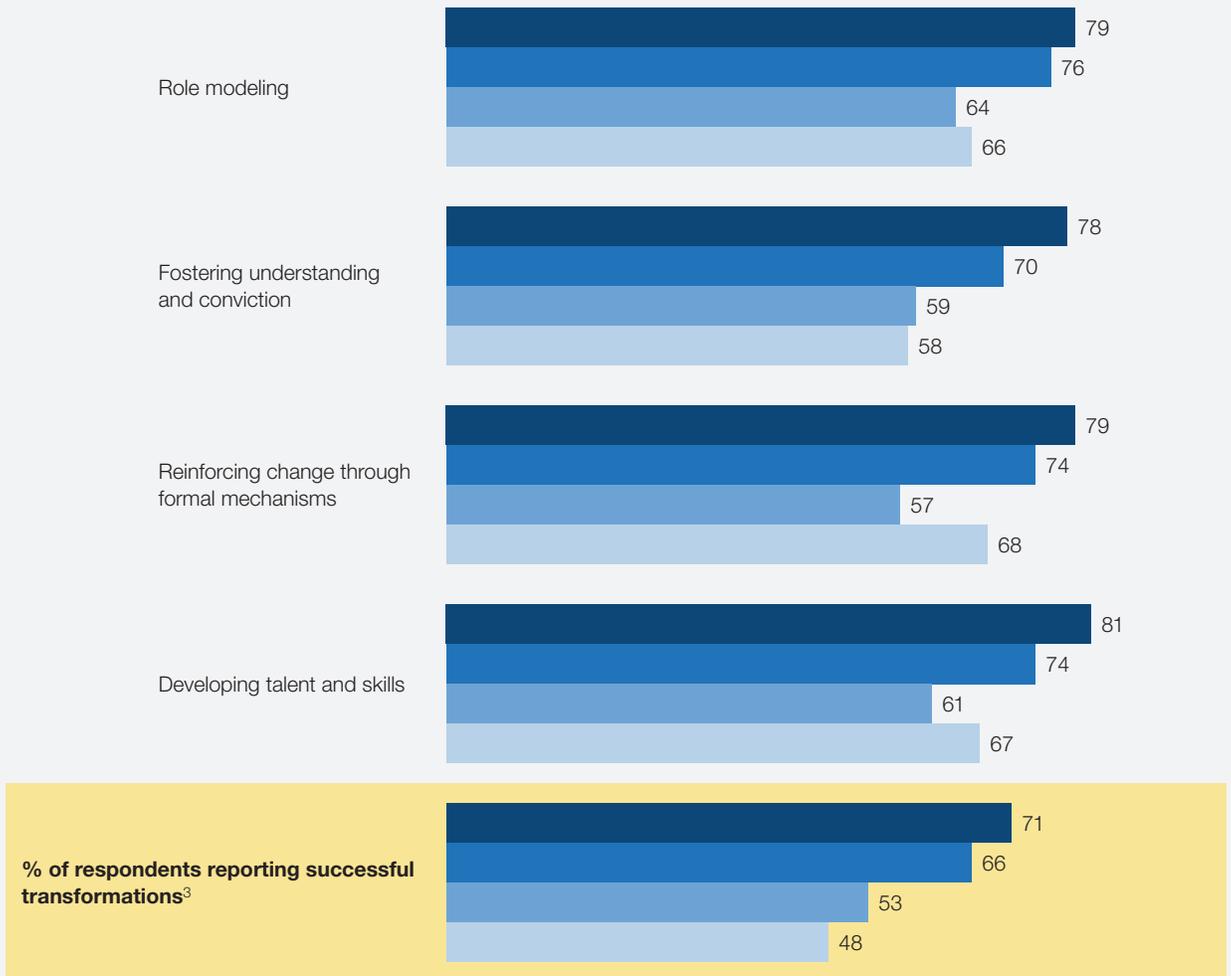
Furthermore, transformations that involve people across the organization in the design process are more likely than others to be successful. Yet in most cases, respondents say their leaders fail to look beyond the usual suspects (that is, the top-management and transformation-leadership teams). Only 35 percent of executives say their transformations involved key influencers, described as employees across levels that others look to for input, advice, or ideas about what's happening in the organization. But the results suggest this group should not be overlooked. When key influencers are involved in a transformation's design, 68 percent of respondents report a successful transformation—which is greater than the 60 percent who report success when their companies' top teams are involved.

Perhaps one of the reasons it's so important to involve more people across the organization is that leaders report a different, and often rosier, view of the transformation than everyone else. Indeed, senior sponsors and the leaders of initiatives are more likely than others to believe that each action was effective at changing mind-sets and behaviors—and more likely to say that the overall transformation was a success (Exhibit 4).

**Exhibit 4 Leaders, relative to others in the organization, are more bullish on the effectiveness of transformations.**

**Effectiveness of actions to change mind-sets and behaviors: moderately or completely effective<sup>1</sup>**

- Senior sponsors, n = 378
- Transformation-initiative leaders, n = 404
- Members of central transformation team, n = 291
- Direct or indirect observers,<sup>2</sup> n = 383



<sup>1</sup> Respondents who answered “moderately ineffective,” “completely ineffective,” or “don’t know/not applicable” are not shown.

<sup>2</sup> Direct observers are employees who were part of a business, functional, or geographic unit affected by the given transformation but who did not play an active role in transformation initiatives; indirect observers were part of a business, functional, or geographic unit not affected by the given transformation.

<sup>3</sup> We define a successful transformation as one that, according to respondents, was either moderately or completely successful at both (a) improving the organization’s performance and (b) equipping the organization to sustain improvements over time.

## Looking ahead

- *Treat design as a science.* The survey results confirm that effective transformation initiatives have specific traits in common. Therefore, companies should not treat transformation design as a guessing game. The most effective initiatives use all four actions to change mind-sets and behaviors; they are also designed to complement one another, align with the company's context, address both strengths and weaknesses, and extend beyond actions the company has previously taken. By ensuring that these characteristics are built into initiatives, executives stand to increase the odds of their transformations' success.
- *Focus on the “what” and the “how.”* Just as the nature of transformation initiatives matters, so does the process by which they're designed. The results indicate that systematic prioritization and involvement of people across the organization is essential for overall transformation success—which may seem like common sense, but it's not always common practice. Leaders would do well to spend time thinking through the design process to ensure that their transformations are focused and that multiple stakeholders are involved. ■

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<sup>1</sup> The online survey was in the field from February 10 to February 20, 2015, and garnered responses from 1,662 executives representing the full range of regions, industries, company sizes, functional specialties, and tenures. Of the respondents, 1,477 executives have been part of at least one transformation in the past five years, at either their current or a previous organization.

To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

<sup>2</sup> We define initiatives as discrete, 6- to 12-month projects that support a broader transformation program. Examples include implementing a new customer-relationship-management system and developing and cascading a change story through different levels of the organization.

<sup>3</sup> See “How to beat the transformation odds,” April 2015, mckinsey.com; and “Why implementation matters,” August 2014, mckinsey.com.

<sup>4</sup> See Emily Lawson and Colin Price, “The psychology of change management,” *McKinsey Quarterly*, June 2003, mckinsey.com.

<sup>5</sup> For more information on the influence model, see Scott Keller and Colin Price, *Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage*, first edition, Hoboken, NJ: John Wiley & Sons, 2011.

<sup>6</sup> In this survey, we asked respondents to rate the effectiveness of their organizations' transformations using a revised set of answer choices compared with past McKinsey surveys on this topic. Here, we define a successful transformation as one that respondents say was either “moderately successful” or “completely successful” at both (a) improving the organization's performance and (b) equipping the organization to sustain improvements over time. The other answer choices were “moderately unsuccessful” and “completely unsuccessful.”

In previous surveys, a successful transformation was defined as one that respondents said was either “very successful” or “completely successful” at improving performance and equipping the organization to sustain improvements. The other answer choices they selected from were “somewhat successful” and “not at all successful.”

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They would like to acknowledge John Parsons and Jonathan Slonim for their contributions to this work.

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