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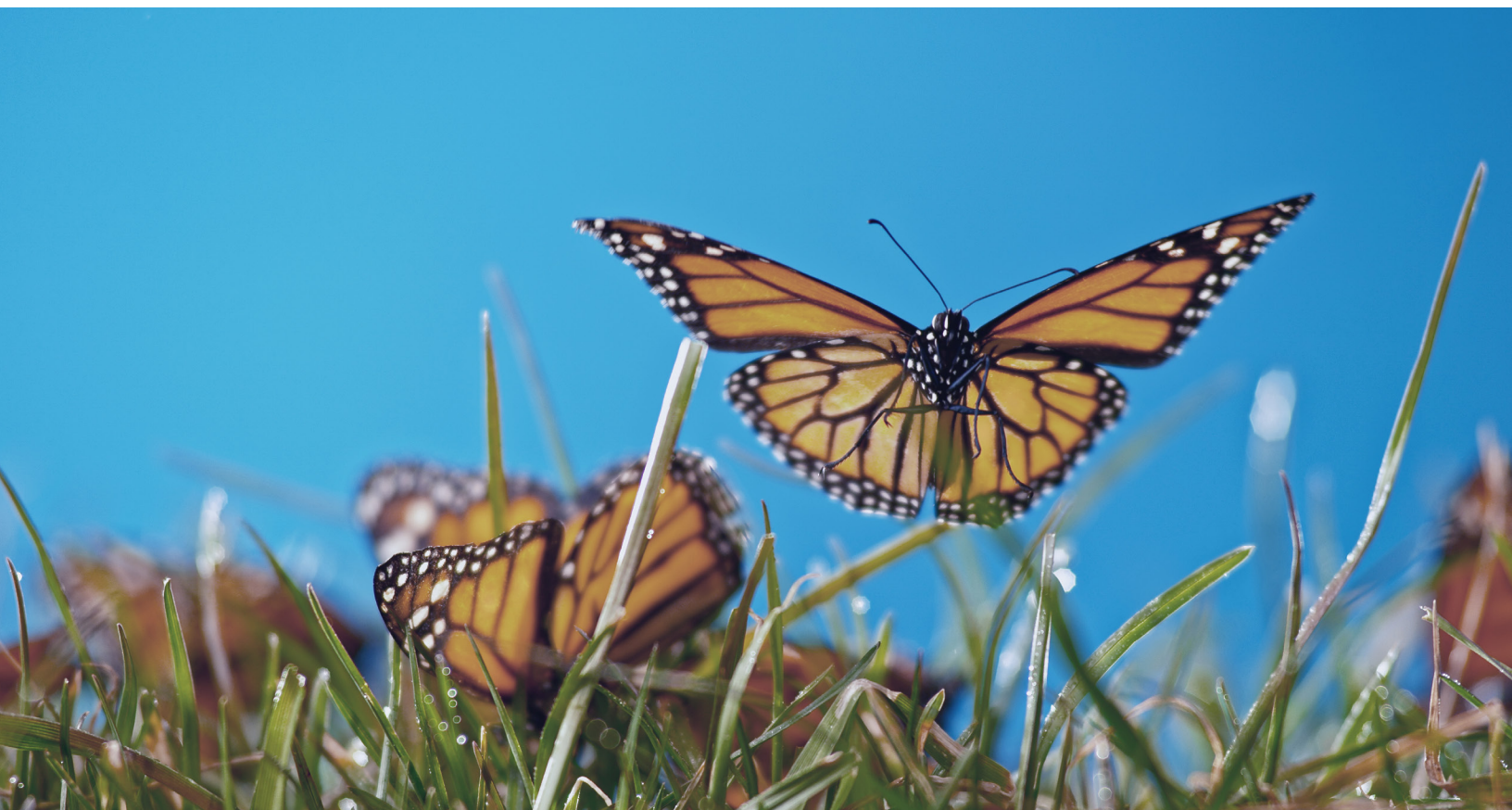
The forgotten step in leading large-scale change

Change programs that explicitly assess the skills and mind-sets required to fulfill their performance and health aspirations are upward of six times more likely to succeed.

by Scott Keller and Bill Schaninger

In *Beyond Performance 2.0: A Proven Approach to Leading Large-scale Change* (John Wiley & Sons, July 2019), McKinsey senior partners Scott Keller and Bill Schaninger draw on their 40-plus years of combined experience, and on the most comprehensive research effort of its kind, to provide a practical and proven how-to guide for executives managing corporate transformations. "A better way to lead large-scale change," the first article based on the book, provides an overview of the authors' approach and explains why it works. This second article, based on the book's fourth chapter, provides an in-depth look into the most often neglected stage of the change process. A future article will discuss how to create the ownership and energy needed for success.

When Charles Holliday Jr. became CEO of the chemical giant DuPont, he felt it was time for a revolution. His predecessor, John Krol, had continued a decade-long strategy of revitalizing traditional brands, trimming bureaucracy, and cutting costs. Although this evolution had gone well, Holliday embarked on a change agenda more profound than any the company had aspired to for a century.

The new CEO had a long-term vision: expanding the company's focus far beyond its chemical offerings to become a science-based enterprise. The strategy would involve a number of midterm aspirations, such as reshaping the business portfolio, realigning the cost base to finance growth investments, improving the company's standing on environmental issues, and creating a more knowledge-intensive value proposition—in Holliday's words, "to get paid for what we know, not just the products we sell."[1] As for organizational health, his goal was to change a company characterized by "mediocrity" and "malaise"[2] into one imbued with personal ownership, a creative and entrepreneurial work environment, and a willingness to share knowledge.

Realizing these new performance aspirations would require many bold moves, DuPont would sell its massive Conoco oil and gas unit and its pharmaceutical, textile, and nylon businesses. Acquisitions would position the company as a major biotechnology player. A new consulting unit would advise customers on safety. Lean Six Sigma would create a more efficient production system. And the company vowed to pursue environmental goals, such as reducing greenhouse emissions by 15 percent; increasing revenues, to at least $2 billion, from products that create energy efficiencies for customers; and doubling annual revenues from nondepletable resources.

Although the aspiration and the strategies to reach it were clear, Holliday and his senior team didn't press "go" on executing the plan until they first assessed the skills that would be required to ensure its successful execution. From an industry-sector standpoint, the company required greater expertise in the automotive and human-health markets, and from a geographical standpoint, it needed a better understanding of the fast-growing markets of Asia, Eastern Europe, and South America. Improved pricing skills would be vital to capture the full value of innovation.

Holliday and his team also understood that skills were only part of what they had to assess before moving on to execution. Equally important were the mind-set shifts required to apply the skills effectively. The company's very identity would change from chemicals to sciences. "Not invented here" mind-sets would have to go. Salespeople would need to believe that "my job is to articulate and get fair compensation for value added," not just to sell products. And the company's environmental

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[1] "Chad Holliday," *Reference for Business*, referenceforbusiness.com.
[2] Chana R. Schoenberger, "Greenhouse effect," February 3, 2003, forbes.com.

aspirations would require a shift from "what's good for the environment can be good for business" to "what's good for business must also be good for the environment."

More fundamentally, the organization could improve its health only by changing mind-sets about how it should be run. A deeply ingrained compliance culture had stifled risk taking of all sorts by expanding far beyond the appropriate realms of regulation and safety. To unlock the necessary entrepreneurship and creativity, DuPont would have to shift employee mind-sets from "my job is to follow the rules" to "my job is to improve what we do and how we do it." Another issue was the way organizational silos had tightly controlled information: the traditional command-and-control structure had ingrained a "trust your leader" mind-set. Shifting to "trust one another" would help employees share knowledge more freely across DuPont. Finally, at the heart of the effort to increase personal ownership, mind-sets would have to change from "I own what I control, and others hold me accountable" to "I own the full positive impact I can have on others and on the business broadly."

Once the skill-set and mind-set shifts required were fully understood, strategic plans were adjusted to ensure that they enabled the needed shifts and thereby paved the way for successful execution of the strategy. DuPont spent the time needed to understand the underlying skill and mind-set requirements of the large-scale change to which it aspired. We frequently see companies miss this vital step. They do so at their peril.

Skill-set requirements

Too often we see the aspirations of companies inspire big investments in tools and infrastructure, although employees lack the skills to use them. Leaders who follow the five-frames change-management methodology[3] we detail in our new book, *Beyond Performance 2.0: A Proven Approach*

to Leading Large-scale Change (John Wiley & Sons, July 2019), take a different path. Once the first stage, setting aspirations, is complete, they assess their ability to realize those aspirations instead of rushing into action planning. Research shows that when change programs assess the skills required to fulfill their performance aspirations, they are upward of six times more likely to succeed.[4]

Skill-set requirements can be assessed in a three-step process. First, determine which skills matter most for your performance aspiration (in other words, quantify demand for them). Next, understand which skills you have now and where else they may exist in the marketplace (supply). Finally, bring the supply and demand views together and determine how to close any gaps.

Forecast demand for skills

Consider an organization dealing with margin compression by cutting costs in the short term and expanding into new high-growth specialty markets in the medium term. Leaders forced to economize in the near term may eviscerate the very workforce that has the skills needed to implement the medium-term growth strategy—unless they take the skill-set view of change.

Demand for skill sets can typically be well understood by interviewing business leaders and functional experts and asking which skills are most important to the strategy, are hardest to find, and create the most value. When P&G underwent massive changes early in Alan G. Lafley's tenure as CEO, for example, it compiled a short list of skills required—for example, brand management. At BHP, cost-minded operational leaders topped the list. The priority was consultative sales at IBM, process engineers at GE, and the ability to attract and retain talent at Google.

Sometimes the skills a company needs may not be obvious to outsiders. McDonald's, the world's largest fast-food chain, must clearly have skills

[3] The five stages, and the questions that must be answered in each of them, are *aspire*: Where do we want to go?; *assess*: How ready are we to go there?; *architect*: What must we do to get there?; *act*: How do we manage the journey?; and *advance*: How do we continue to improve? Simon Blackburn, Carolyn Dewar, Elizabeth Irons, Scott Keller, Mary Meaney, Anders Bruun Nielsen, Garrett Ulosevich, and Carter Wood, "How do I transform my organization's performance?," *Insights into organization*, June 2011, McKinsey.com.
[4] "What successful transformations share," March 2010, McKinsey.com.

in supply-chain management and marketing. Yet the company's most strategic skill set is startlingly different. As American fast-food tycoon Ray Kroc once remarked, "McDonald's is in the real-estate business, not the restaurant business."[5] The care the company shows in selecting the right locations for the properties in its portfolio—more than 36,000 restaurants in more than 100 countries—helps it to maintain a competitive edge.[6]

Understand skill 'supply' dynamics

The next step is a structured inquiry into the current state of the skills required and the related external dynamics. Companies should explore the quality and quantity of their existing skills, as well as their ability to attract more from outside the company. A lack of realism at this point can undermine even the best-laid change plan. One global manufacturer, for example, designed a growth program leveraging what it saw as its strength in sharing best practices across plants, yet its real track record was patchy at best. A mining company imagined that its health- and safety-related capabilities gave it a competitive advantage in the talent market for important frontline skills; this belief too was illusory.

Organizations that wish to explore the quality of their existing skill sets can draw on many tools to assess them realistically. These tools typically leverage a combination of performance metrics, benchmarking, and observational assessments.[7] Assessing the quantity of existing skill sets involves using predictive models to forecast different supply-side scenarios. These typically combine traditional internal data sources (including workforce-growth data by job code, attrition rate, and eligibility for retirement) with external data sources (such as government labor statistics and studies on workforce trends). Talking to subject-matter experts is important, too.

Finally, to learn how a company's employee value proposition (EVP) stacks up against the competition's, use focus groups, exit interviews, site visits, and social-media analyses (Glassdoor and LinkedIn can be invaluable). The important EVP dimensions to consider are providing employees with a great job (interesting work, opportunities, and meaning), great rewards (wages, benefits, perks, and recognition), a great company (reputation, culture, values, and health), and great leaders (inspirational, supportive, and empowering). This assessment must get to what is real—not just marketing hype—and target specific skills.

Determine how to close gaps

Once both the supply and demand side of the skill-set equation are understood, a simple matrix can establish which skills to tackle first (Exhibit 1). One axis represents the importance of a skill (future demand and value at stake), the other the difficulty of acquiring and retaining it (scarcity of supply and EVP challenges).

Once skill sets have been prioritized, there are three possibilities for closing any gaps: *build* the skills you need by reskilling and upskilling the current workforce; *buy* the skills by hiring new people, tapping into new talent pools, and "acquihiring" (acquiring a company primarily for its talent); or *borrow* the skills by relying on contractors, partnerships, or outsourcing. Walmart, for example, had to expand its digital capabilities significantly to realize its omnichannel strategy. One vital part of the plan was purchasing more than 15 small companies, whose 3,500 employees gave Walmart skills in search, site optimization, customer-loyalty data analytics, social-media analytics, and data science.

Of course, in some areas there also may be overages. The right approach to rebalancing skill sets in these cases will involve redeploying employees, releasing them, or both. By building a long-term, scenario-based view, you can plan such moves well in advance to minimize disruption and maximize fairness. The experience of a heavy-equipment manufacturer illustrates how these steps come together.

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[5] Daniel Gross, *Forbes Greatest Business Stories of All Time*, New York: John Wiley & Sons, 1997.
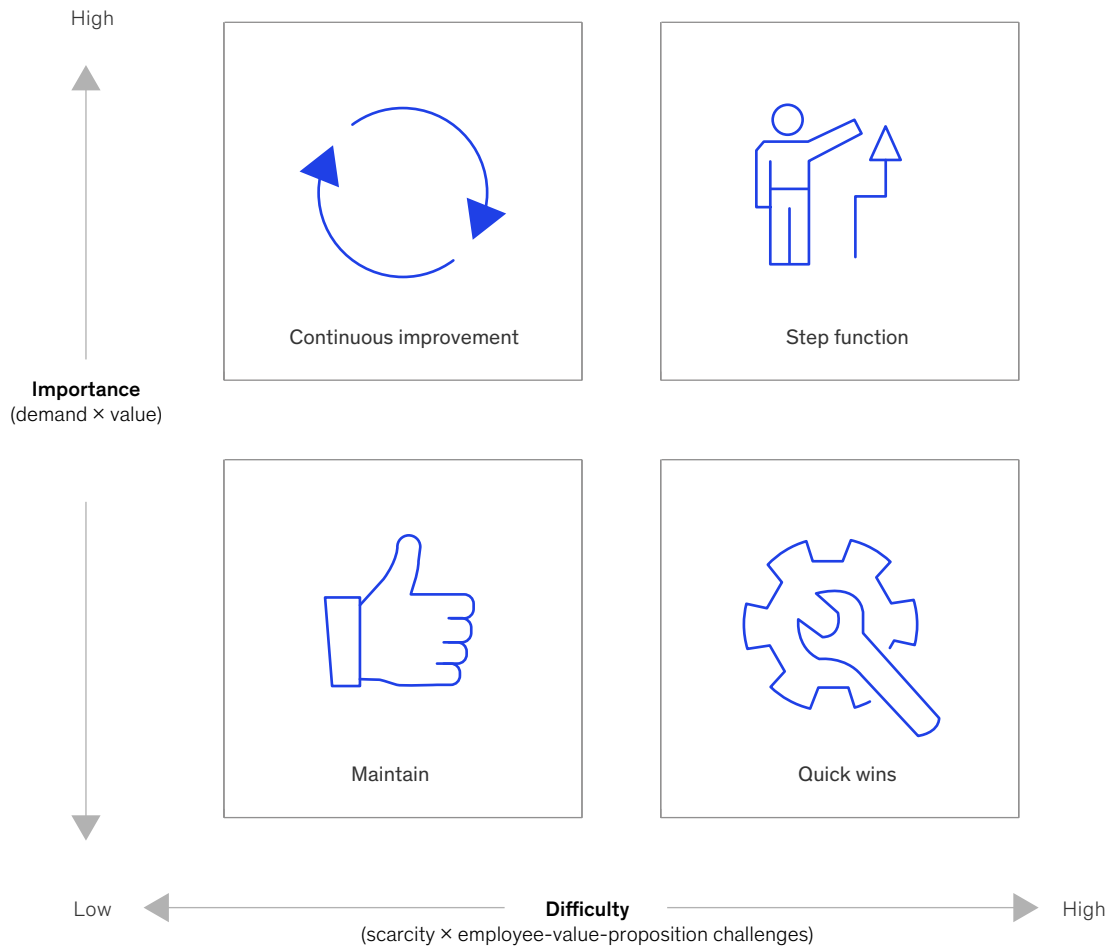[6] Erin E. Arvedlund, "McDonald's commands a real estate empire in Russia," *New York Times*, March 17, 2005.
[7] Observational assessments are grids that break an institutional capability down into its component parts and describe what poor, good, and great look like, so the description can be compared with reality at an organization.

Exhibit 1

Once companies understand both the supply and the demand side of the skill-set equation, a simple matrix can establish which skills to tackle first.

Determining how to close gaps by prioritizing critical skill sets

High

Importance
(demand × value)

Continuous improvement

Step function

Maintain

Quick wins

Low   **Difficulty**   High
(scarcity × employee-value-proposition challenges)

First the company analyzed the skill requirements of its enterprise strategy for the next five years, assessing 33 skill sets. Its needs included a new pipeline of digital and analytics talent, a shift in emphasis to advanced manufacturing and systems engineering, and broadened talent-procurement expertise. Next the company looked at the supply side, combining internal and external data with predictive analytics to forecast the availability of skills. It also identified its current and future talent pools (both recent university graduates and experienced hires) and benchmarked its

EVP against those of other companies. To decide where to focus, the company integrated the supply and demand views and compiled a short list of skills to emphasize at the enterprise level. It then implemented plans to close the gap and to protect its existing talent strengths.

At this point in the assess stage of a large-scale change program, you will have a sharp view of the skills you need and how to get them. If you can't fill the gaps, you may have to revisit the *aspire* stage.

Health: Mind-set shifts

Just as important as assessing your skill-set requirements is understanding the employee mind-set shifts needed to improve organizational health and performance. Many leaders don't take this aspect of change as seriously as they should—and as a result struggle to lead successful change at scale. In the roughly 70 percent of change programs that fail to deliver results, the vast majority of problems can be attributed to the "soft stuff": employee resistance to change and inappropriate leadership behavior. On the flip side, taking the time to surface limiting mind-sets and reframe them in a way that accelerates performance and health creates a fast track to successful, sustainable change at scale.

Consider the story that Ben and Rose Zander told in *The Art of Possibility: Transforming Professional and Personal Life* (Harvard Business Review Press, September 2000) about a shoe company that sent two traveling sales reps to a faraway market it hoped to enter. Soon, two telegrams came back independently. One said, "Situation horrible. They don't wear shoes!" The other said, "Glorious opportunity; they don't have any shoes yet!" Beyond vignettes such as this, the data show clearly that mind-sets matter: companies that take the time to identify deep-seated ones are four times more likely than those that don't to rate their change programs as successful.[8]

There are three steps in assessing mind-sets effectively: identifying helping and hindering behavior, uncovering the underlying mind-set drivers, and reframing the root-cause mind-sets. A bank, for example, wanted to change its customer-focus practices to support its growth by becoming "one firm" for its clients. To do so, it had to get the salesforce to cross-sell products consistently, which only 10 percent already did. The vast majority sold bundled products with the initial sale but very little thereafter, and a few sold only one product at a time.

When the bank studied the high-performing 10 percent, it found that two things distinguished them: the number and nature of questions they asked to profile the customer and their deep, vast knowledge of the products of the bank. It then created a change program that gave all salespeople new support tools, including scripts with appropriate profiling questions and information about the institution's products. Yet sales barely improved. The company had correctly assessed the behavioral change needed to achieve its performance and health goals—the vital first step to uncovering mind-sets—but hadn't taken the next step: understanding the underlying mind-sets, or beliefs that explain why employees behave as they do.

Uncover the underlying mind-set drivers

Mind-sets differ from the external factors that may have shaped them originally, such as incentive systems, role modeling, and expectations. Changing the external factors can have an impact in the long term, but in the near and medium term subconscious norms often persist despite such changes. By assessing subconscious thought patterns that drive smart, hard-working, well-intentioned employees to behave in ways that don't reflect the desired behavior and by altering the work environment appropriately, an organization can change behavior quickly and at scale.

The process of uncovering these subconscious mind-sets is often visualized as an iceberg (Exhibit 2). The primary tool for diving beneath the surface is an interview technique called "laddering," which uses multiple forms of inquiry to uncover the multiple levels of why people hold a particular view. The "ladder" of questions prompts the interviewees to understand their deepest motivations and to state the values and assumptions that shape their personal world. Although the technique originated in clinical psychology, it's been successfully applied to organizational change for many years. Skilled interviewers listen for three types of mind-sets. "Not allowed" mind-sets embody perceptions of what's expected and accepted; "can't" ones, perceptions of how available or capable resources might be; and "won't" ones, views of a person's sense of identity and values, as well as beliefs about power dynamics.
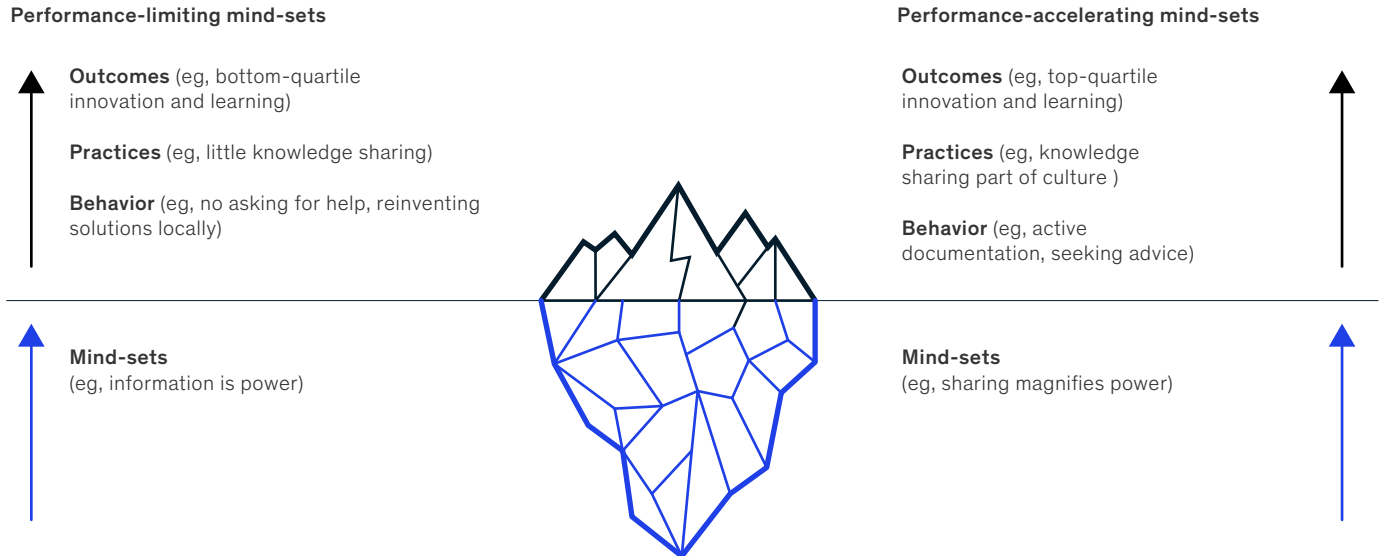
Laddering interviews feel very different from traditional ones, which may start with a statement

8 "What successful transformations share," March 2010, McKinsey.com.

Exhibit 2

Subconscious mind-sets—both helpful and problematic—are often visualized as an iceberg.

Uncovering and changing the underlying mind-set drivers

Performance-limiting mind-sets

Outcomes (eg, bottom-quartile innovation and learning)

Practices (eg, little knowledge sharing)

Behavior (eg, no asking for help, reinventing solutions locally)

Mind-sets
(eg, information is power)

Performance-accelerating mind-sets

Outcomes (eg, top-quartile innovation and learning)

Practices (eg, knowledge sharing part of culture)

Behavior (eg, active documentation, seeking advice)

Mind-sets
(eg, sharing magnifies power)

like, "Talk to me about your sales process," followed by clarifying questions. A laddering interviewer might say, "Imagine I'm a customer and you are going to sell me a loan that I've already investigated online. Let's role play that interaction." After the role playing, the interviewer will then ask questions such as these: "Where did you feel most and least comfortable during that interaction and why?" "What colleague would have handled the sale better— how and why?" "What do you feel was your best experience with a customer, and what made that different from our role play?"

Although powerful, the laddering technique is hard to scale in large, diverse organizations. A complementary approach involves using visual cues in focus groups. The facilitator lays out 100 or so pictures and asks participants to choose those that best represent their feelings on a topic such as "What most energizes or frustrates you about the organization?" or "What is your greatest hope for it?" This approach can also be used to illuminate specific business challenges: "Which

image represents what it's like to sell to customers?" "Which image represents how it feels to be in a performance review?" "Which image represents how collaboration and knowledge sharing work here?" Pictures trigger a more honest, emotive, and visceral conversation than routine questions do.

As a handy side benefit, the images representing employees' ideal organization can be used later in the communications program, forging a link between their input and the change effort's themes. After people have chosen images individually, the wider group can go on to create collages summarizing their collective feelings about work. Leadership teams should participate in a few focus groups because they are often quite revealing.

The third tool for understanding organizational mind-sets is qualitative data analysis (QDA), which mines rich sources of textual data—for instance, reports, websites, advertisements, internal communications, and press coverage. One basic, straightforward, and familiar QDA technique is

the use of "word clouds," which analyze how often particular words appear in a given body of texts. The more often a word is used, the larger it appears on a page with all words analyzed. Even a simple word cloud can be quite insightful: what people talk about informs what they think about, an important driver of what they do. Comparing word clouds from different sources can be useful, too. A public-sector organization compared the word cloud representing its stated values and leadership model with a word cloud of the executive team's internal speeches. It was shocked to find no words in common.

Let's go back to the bank's stalled change program. An assessment of underlying mind-sets revealed that two of them accounted for the failure of the new sales-stimulation tools and training. The first was "My job is to give customers what they want," the second "I should follow the Golden Rule and treat my customers as I'd like to be treated." These mind-sets seem perfectly reasonable, and most employees didn't even realize they were acting on them until prompted by the laddering interviews and focus groups with visual cues. Yet the mind-sets can explain the troublesome behavior that had to be shifted, as we'll now explain.

Reframe root-cause mind-sets

Once the root-cause mind-sets are understood, they can be reframed to expand the range of choices available to employees. Which beliefs would give average-performing bankers more and better-informed behavioral choices? Suppose these bankers, like the high performers, believed that the job—the way bankers create value for other people—was to help customers fully understand their needs rather than just to give them what they think they want. The high performers also practiced the Platinum Rule: treat customers as they (not bankers) want to be treated. With these mind-sets in place, new sales scripts may not even be needed, because the customer profiling comes naturally (to understand needs), and the relationship is strengthened as employees are more attuned to customers' preferences (applying the Platinum Rule).

A deeper shift in worldview lay beneath this reframing: the change from giving customers what they want to helping them fully understand what they need represents a move from a subordinate to a peer mind-set. The best kind of reframing not only brings the subconscious into consciousness in ways that expand the realm of possibility but also makes the reframing memorable, so it can be discussed in the context of day-to-day work. At the bank, for example, the Platinum Rule memorably replaced the Golden Rule. Working with mind-sets—and, in particular, reframing them—probably requires more artistry than any other aspect of change programs. But that shouldn't deter leaders: perfection isn't the goal.

An analogy from human health is helpful. Years of research have shown that most cardiac patients can live considerably longer if they stop smoking and drinking, eat less fatty food, reduce their stress levels, and regularly exercise. Yet many studies show that 90 percent of the people who undergo surgery for heart disease revert to unhealthy behavior within two years.

Dean Ornish, a professor of medicine at the University of California at San Francisco, wanted to change that.[9] Rather than focusing on the behavior patients should adopt to survive, he reframed the underlying mind-set of the patient's narrative—from "If I behave this way I won't die" (fear driven) to "If I behave this way my life will be filled with joy" (hope driven). As he says, "Telling people who are lonely and depressed that they're going to live longer if they quit smoking or change their diet and lifestyle is not that motivating. Who wants to live longer when you're in chronic emotional pain?" Thanks to this approach, 77 percent of his patients permanently changed their lifestyles. The normal success rate is 10 percent.

Ultimately, change leaders should home in on a short list of prioritized mind-set shifts and the related behavior (Exhibit 3). In the next stage of the change process, *architect*, they will create a plan to drive the creation of value and build the requisite skills in a way that achieves the necessary mind-set shifts.

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[9] Alan Deutschman, "Change or die," *Fast Company*, May 1, 2005, fastcompany.com.

Exhibit 3

Change leaders should home in on a short list of prioritized mind-set shifts and related behavior.

Management-practice mind-sets and common forms of related behavior

	Performance-limiting mind-sets	Performance-accelerating mind-sets
Bottom-up innovation	**Protect our legacy:** What made us great in the past will make us great in the future	**Shape our future:** The best way to respect our past is to shape the future proactively
	• Move slowly and only after careful analysis • Filter new ideas to avoid risk of failure • Spend most of time on plans, updates, and documents • Innovate if given permission and resources	• Rapidly iterate, test, and learn to improve • Raise opportunities and allow intelligent failures • Spend most of time on ideation and prototyping • Innovate incrementally as part of standard work
Openness and trust	**Value harmony:** Look after each other (and self) by being nice and focusing on the positive	**Value excellence:** Look after each other (and self) by being transparent and asking for and giving help
	• Real discussion takes place outside meeting • Be positive, fit in, and share good news • Don't push back to leaders for fear of reprisal • Take pride in not asking for help, knowing it all	• Discuss tough issues in meeting, then show solidarity • Be honest, authentic, and direct • Constructively disagree regardless of hierarchy • Seek interdependence and support to deliver 1 + 1 = 3
Personal ownership	**Work hard and complete tasks:** Understand expected actions and targets; give 110% to realize them	**Work intelligently and deliver outcomes:** Understand expected outcomes and rationales, then deliver
	• Leaders dictate what to do and how to do it • Success demonstrated by activity, business, and reports • Rituals and reports continued without asking why • Others blamed if ultimate company results are poor	• Leaders set objectives and rationales, then coach • Success demonstrated through outcomes • Constant prioritization based on activity's value add • Passionate belief that no one wins if company doesn't

Neglect *assess* (the second stage of the five-frames-of-performance-and-health approach to leading large-scale change) at your peril. Getting it right means that once your aspirations become clear (in the previous stage, *aspire*), you take the time to understand your organization's readiness to go there.

At the end of this stage, you'll have identified the vital skill requirements. You'll have taken a hard look at the state of these skills in your organization and the marketplace, today and going forward. You'll have determined how to fill any gaps. You'll also not only have uncovered the mind-sets that prevent your company from becoming healthier and performing better but also reframed them to unlock constructive behavior. Only then will you be fully ready to move to the next stage of the change process, *architect*, when you'll determine the overall plan.

The journey through the *assess* stage can be the most challenging in the whole change program: most organizations don't have much experience with long-term strategic workforce planning or exploring unspoken assumptions. We've already given you fair warning, however—if you skip this stage, you will definitely go back to it once your change efforts stall. At that point, the work will be harder, for the high hopes held at the outset will have hardened into cynicism and disengagement.

But when you execute the *assess* stage well, it is always viewed positively by the workforce. Finally, the company isn't just asking people to work harder; it's uncovering and removing the barriers, so employees can work smarter as well. In the words of an industrial-company supervisor we worked with, "We're at long last discussing the undiscussables!"

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