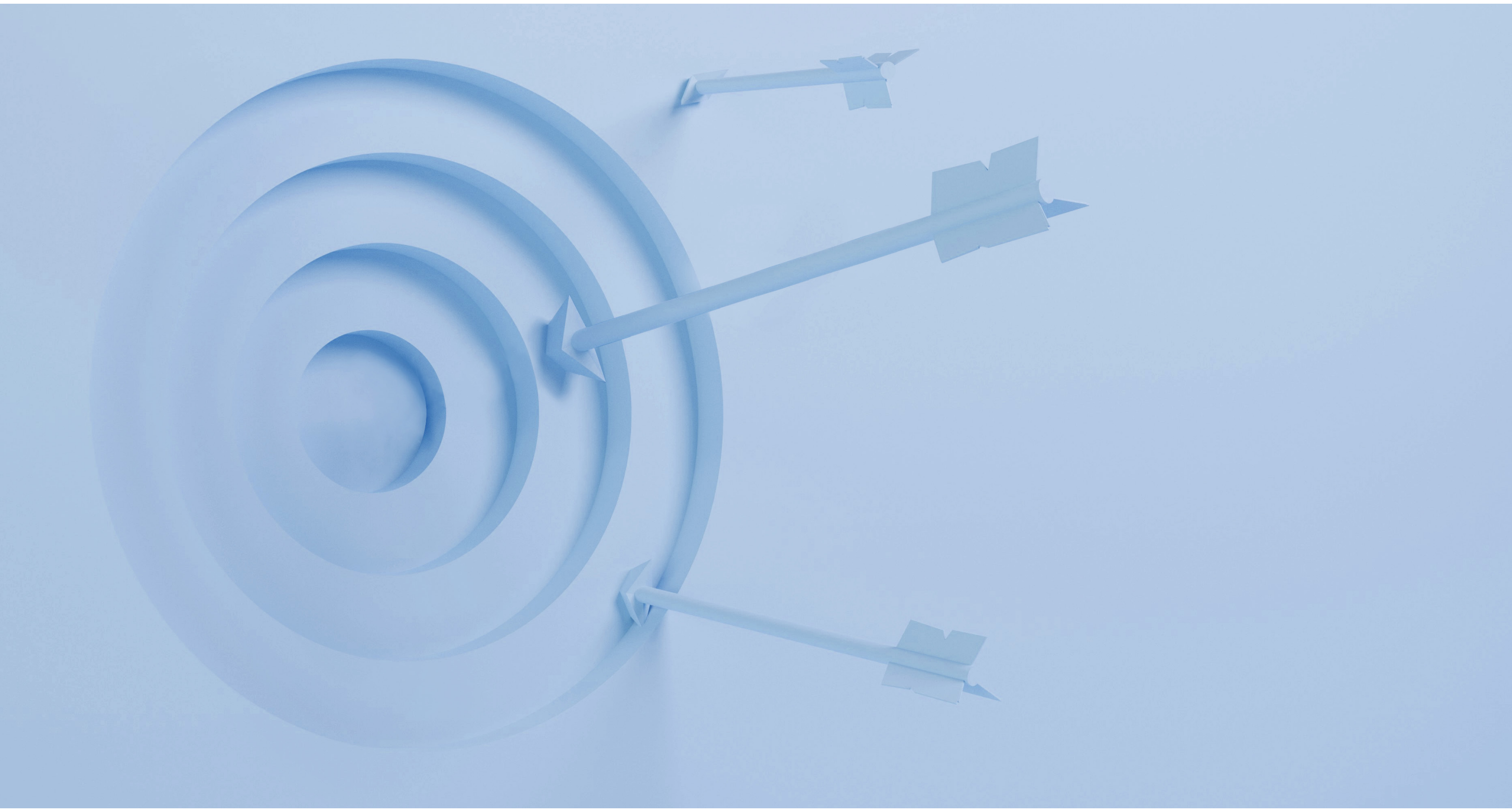
People & Organizational Performance and Transformation Practices

Losing from day one: Why even successful transformations fall short

Our latest research on transformations confirms that their success remains elusive and reliant on a holistic approach. Yet some actions are especially predictive of realizing the financial benefits at stake.



December 2021

After 15 years of original McKinsey research on organizational transformations,[1] the results from our latest McKinsey Global Survey confirm an enduring truth: the more transformation actions a company takes, the greater its chances for success.[2] Yet success remains the exception, not the rule. While we've known for years that a comprehensive approach to organizational transformation is more conducive to lasting change, the average success rate has remained persistently low. Less than one-third of respondents—all of whom had been part of a transformation in the past five years—say their companies' transformations have been successful at both improving organizational performance and sustaining those improvements over time.

But even companies with successful transformations don't always capture the full financial benefits of these efforts. So we took a closer look at the different stages of a transformation's life cycle to understand where value is lost and what companies can do to preserve it. According to our analysis, three core actions of a transformation are especially predictive of value capture—and the companies with successful transformations are more likely than the rest to pursue the specific tactics that support them.

The value at stake from transformations

The survey results confirm that there are no short-cuts to success. The main differentiator between success and failure was not whether an organization followed a specific subset of actions but rather how many actions it took throughout an organizational transformation's life cycle (Exhibit 1).[3]

At the same time, the results suggest that even successful organizational transformations deliver less than their full potential. Respondents reporting success estimate that, on average, their organizations have realized only 67 percent of the maximum financial benefits that their transformations could have achieved. By contrast, respondents at all other companies say they captured an average of only 37 percent of the potential benefit. Similarly, there's room for many companies to improve their timing; even the companies with successful transformations could have benefited from speeding things up (for more on the transformation's timeline, see sidebar "Accelerate the timeline for capturing value").

What's more, while much of a transformation's value loss (55 percent) occurs during and after implementation, a sizeable portion happens as early as day one (Exhibit 2). On average, respondents say that nearly one-quarter of value loss occurs during the target-setting phase, suggesting that the full potential might be compromised before companies' transformations even get started.

Yet even after the implementation phase, a company's hard work is not done. According to respondents, 20 percent of value loss occurs after implementation, once the initiatives have been fully executed. To mitigate this loss, the results suggest that embedding transformation disciplines into business-as-usual structures, processes, and systems can help—and that this is a more common practice among successful transformations. In particular, companies that have undergone successful transformations are more likely than

[1] For our most recently published research on transformations, see "The people power of transformations," February 10, 2017, McKinsey.com; "How to beat the transformation odds," April 1, 2015, McKinsey.com; and "What successful transformations share," March 1, 2010, McKinsey.com.

[2] The online survey was in the field from May 18 to June 29, 2021, and garnered responses from 1,034 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. All participants have been part of a transformation in the past five years, at either their current organization or a previous one. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

In his own research, John P. Kotter has reported on similar odds for success: "More than 70 percent of needed change either fails to be launched … [or] to be completed" (John P. Kotter, *Leading Change*, Boston, MA: Harvard Business Review Press, 1996); and "the same appalling 70 percent figure" for change failure (John P. Kotter, *A Sense of Urgency*, Boston, MA: Harvard Business Press, 2008).

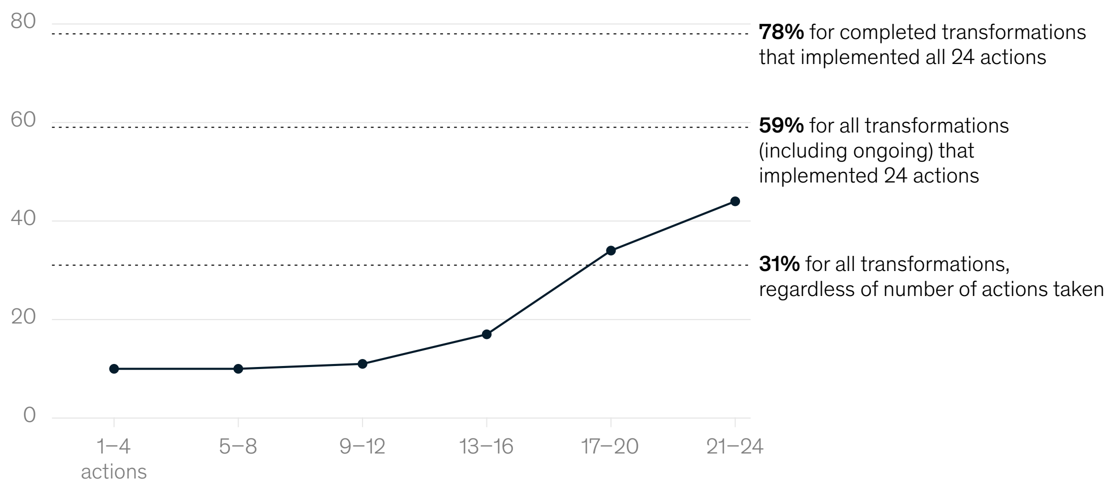
[3] In the survey, we tested 24 actions across three stages of a transformation: goal setting (that is, actions related to target-setting and aligning the organization around the transformation's objectives); design (that is, actions related to project management, roles, incentives, communication, and time to impact); and implementation (that is, actions related to resource allocation, incentives, communication, role modeling, and embedding changes into business-as-usual structures, processes, and systems).

Exhibit 1

Transformation success relies on a comprehensive approach and is more likely to be achieved when companies take a greater number of actions.

Success rate, by number of actions taken,[1] %

··· Average success rate



[1]Respondents who report "success" said the transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

Exhibit 2

The potential for value loss in a transformation begins as early as day one, and the largest share of value is lost during implementation.

When maximum financial benefit was lost, by transformation phase,[1] %

Target setting	Planning	Implementation	After implementation
22	23	35	20

[1]We defined "financial benefit" as the potential increase in earnings before interest, taxes, depreciation, and amortization (EBITDA) that the transformation could have achieved. Respondents who answered "don't know/not applicable" are not shown.

others to have made substantial changes to their annual business-planning processes and review cycles, from executive-level weekly briefings and monthly or quarterly reviews to individual performance dialogues (Exhibit 3).

Three positive indicators of value capture

While no single action or group of actions defines transformation success, our analysis shows that three actions are positive indicators for transformations capturing the most value, and they should be prioritized from the start:

— *Completing a comprehensive, fact-based assessment of the business to identify opportunities for improvement.* The more thoroughly that an organization uses facts to assess the maximum financial benefit it can achieve from a transformation in the first place, the more confidence leaders will have in setting and pursuing ambitious yet realistic targets that reflect the transformation's full potential.

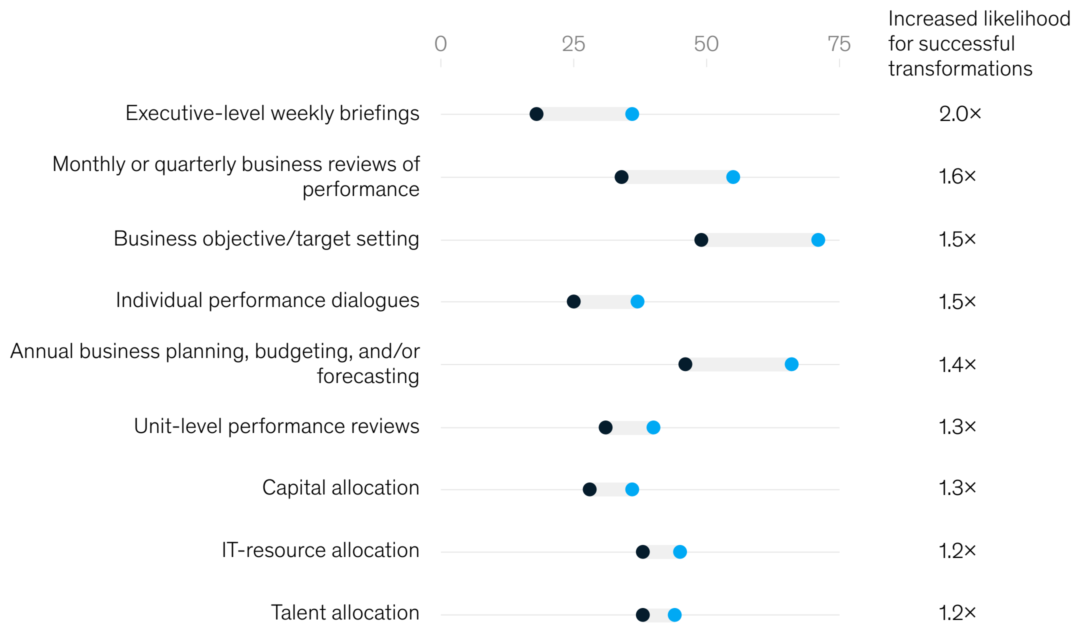
Setting an overall financial target for the transformation is one of the most important steps to take, as it sets the tone for the

Exhibit 3

Organizations with successful transformations are more likely than others to embed transformation disciplines into 'business as usual' processes.

Processes that changed substantially as a result of the transformation,[1] % of respondents

● At organizations with successful transformations[2] ● At all other organizations



[1]Respondents who answered "don't know/not applicable" are not shown.
[2]Respondents who said their organizations' transformations have been very or completely successful at both improving performance and sustaining those improvements over time.

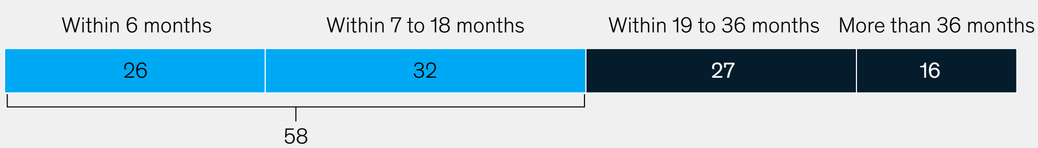
Accelerate the timeline for capturing value

Whether or not their companies' transformations have been successful, respondents to the survey report a similar timeline for capturing value. Approximately half is realized in the first 18 months, and the other half after that point (exhibit). Yet other research from McKinsey's own database of transformations suggests that companies with top-quartile financial performance have rapidly accelerated that timeline.[1] These companies typically capture 74 percent of their transformations' value within the first 12 months—value that can then be reinvested into new transformation initiatives, creating a virtuous cycle of improvement that's much easier to realize with a faster timeline.

Exhibit

On average, about half of a transformation's value is realized within the first 18 months.

When transformation's financial and/or operational value is realized, by time frame, %



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

[1] This analysis identified 82 publicly listed companies that went through a full-scale transformation and had an observable 18-month transformation track record. Their total shareholder returns (TSR) were compared with a representative off-the-shelf sector *and* geographic stock index, which allowed for the measurement of excess TSR against the index for an 18-month period following the launch of a transformation. For more, see Kevin Laczkowski, Tao Tan, and Matthias Winter, "The numbers behind successful transformations," October 17, 2019, *McKinsey Quarterly*, McKinsey.com.

whole program and what's possible; if companies set high expectations, people tend to meet them. In an in-depth review of 15 transformations,[4] we found that companies on average deliver 2.7 times more value than their senior executives thought possible when the transformations got under way. Other McKinsey research shows the power of high expectations: companies that set transformation targets at 75 percent or higher of their trailing earnings are more likely to earn outsize total shareholder returns (TSR).[5]

— *Adapting goals for employees at all levels.* It's not enough to set effective and ambitious aspirations for the transformation. People need to understand what these goals mean for their day-to-day jobs and what they will be expected to do differently; if they don't know how they connect to the transformation, their behaviors and how work gets done won't change. But the survey results suggest a possible perception gap: senior leaders are nearly 20 percent more likely than people in other roles to believe

[4] Pooya Nikooyeh and Jared Sclove, "Setting aspirational targets," November 17, 2016, McKinsey.com.
[5] Kevin Laczkowski, Tao Tan, and Matthias Winter, "The numbers behind successful transformations," October 17, 2019, *McKinsey Quarterly*, McKinsey.com.

that their transformation's goals have been adapted for relevant employees across the organization.

Making an organizational transformation's goals tangible for all employees takes more than just one-way communication. We see from the survey that the most successful organizations are more likely to involve employees and engage them in face-to-face communication: specifically, using line-manager briefings (cited by 65 percent of respondents whose transformations were successful), leadership town halls, and a cascade of information throughout the business (for more on employee communication and engagement, see sidebar "The power of influencers") (Exhibit 4).

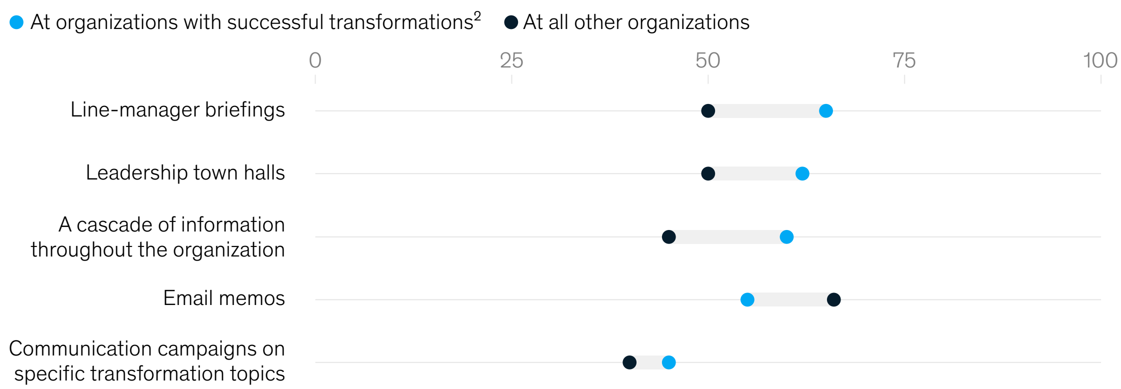
— *Allocating high performers to the highest-value initiatives.* According to our survey, the organizational transformations that come close to realizing their full financial benefit are more likely than others to match their best talent to their most important initiatives. This further emphasizes the importance of linking business and talent priorities by having a clear view of where value is generated in the company,[6] and who in the organization has the experience and skills to deliver that value.

Other McKinsey research shows that the burden placed on these high performers can be too high.[7] Rather than overloading high performers with too many initiatives, companies should keep these individuals focused on the biggest, and often highest-profile, initiatives that make

Exhibit 4

Organizations with successful transformations are more likely than others to use face-to-face communication, making goals tangible for employees.

Most commonly used channels to communicate with employees during the transformation,[1] % of respondents



[1]Out of 12 channels that were offered as answer choices.
[2]Respondents who said their organizations' transformations have been very or completely successful at both improving performance and sustaining those improvements over time.

[6] Mike Barriere, Miriam Owens, and Sarah Pobereskin, "Linking talent to value," April 12, 2018, *McKinsey Quarterly*, McKinsey.com.
[7] Laura London, Stephanie Madner, and Dominic Skerritt, "How many people are needed in a transformation?," September 23, 2021, McKinsey.com.

The power of influencers

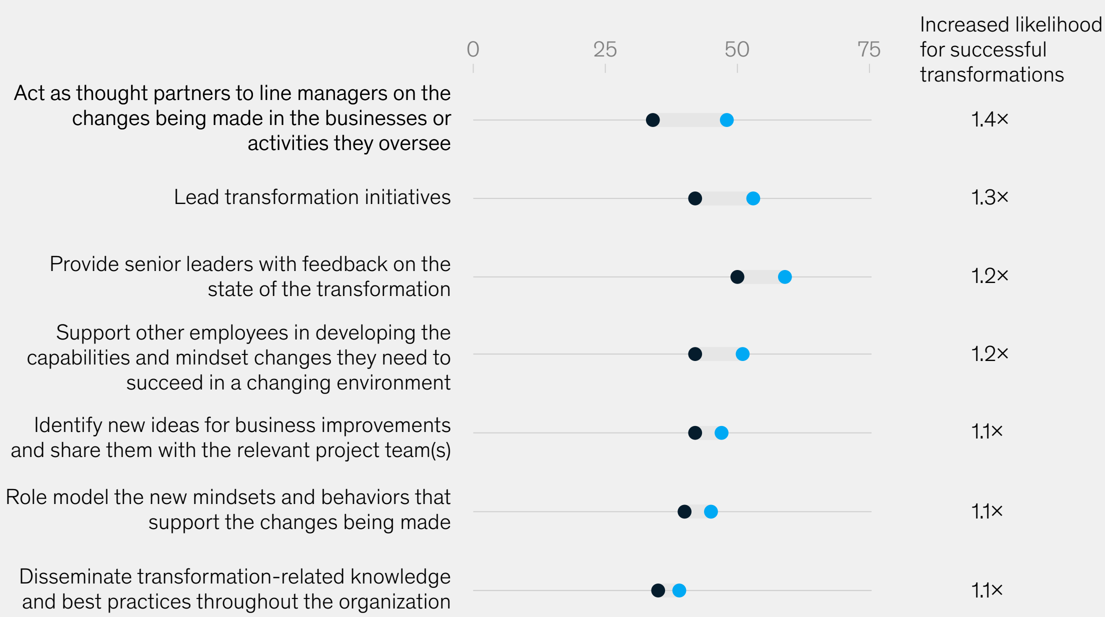
Successful transformations are also more likely than others to involve influencers—that is, influential people whom other employees look to for input, advice, or ideas—directly in the transformation. And by “involvement,” we mean giving people real ownership of an initiative or milestone that contributes to the transformation. Beyond a more traditional, communication-focused role of sharing knowledge and cascading messages, influencers within successful transformations are more likely than their counterparts at other organizations to provide senior leaders with feedback, lead transformation initiatives themselves, and act as thought partners to line managers on changes being made in the areas they oversee (exhibit).

Exhibit

Successful transformations are more likely than others to involve influencers, particularly in more active, leader-facing roles.

Role(s) that influencers[1] played during the transformation, % of respondents

● At organizations with successful transformations[2] ● At all other organizations



[1]Influential people other employees look to for input, advice, or ideas. Respondents who answered “don’t know/not applicable” are not shown.
[2]Respondents who said their organizations’ transformations have been very or completely successful at both improving performance and sustaining those improvements over time.

up 5 percent or more of the total value (which, on average for successful transformations, comprise only 5 percent of the total portfolio of initiatives). For smaller initiatives, it's best to involve a wider coalition of managers and employees, which builds broader buy-in and reduces the potential for delayed value capture.

Our survey results indicate that companies' transformation efforts remain stuck. The 30 percent success rate hasn't budged after many years of research, and we now know that even successful transformations still leave value on the table. In a period of such prolonged and dramatic change in business, the economy, and the world at large, the newest results suggest that it's time for companies to treat transformations as more than just a side project or discrete event and use them as opportunities to fundamentally change how their business runs. When a company frees up its bandwidth from other initiatives and focuses its resources and energy solely on a transformation, then it's possible to take the truly holistic approach that success requires.

The survey content and analysis were developed by **Michael Bucy,** a senior partner in McKinsey's Charlotte office; **Bill Schaninger,** a senior partner in the Philadelphia office; **Kate VanAkin,** a senior expert in the London office; and **Brooke Weddle,** a partner in the Washington, DC, office.

The authors wish to thank Anne Blackman, Kevin Blasko, Jacquie Hudson, Randy Lim, Lauren Patrick, and Amanda Sims for their contributions to this work.

Designed by McKinsey Global Publishing