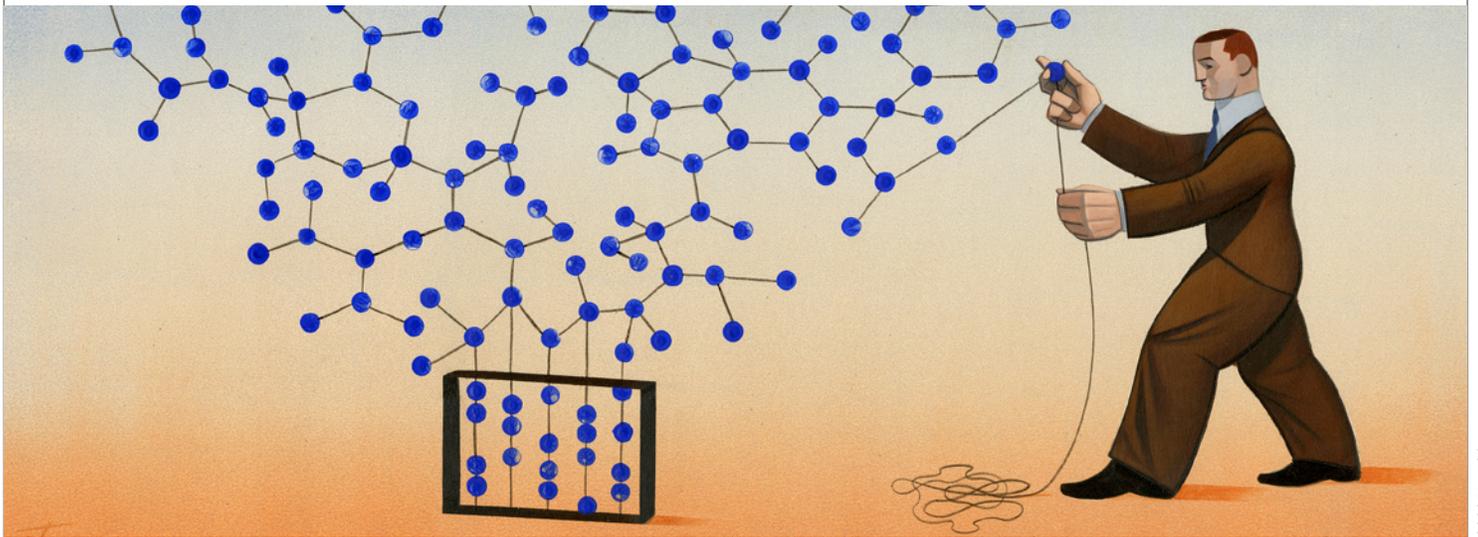


Organizing for successful change management:

A McKinsey Global Survey



John Krause

A *McKinsey Quarterly* online survey sheds new light on what drives a successful transformation in organizational performance.

Transformations appear to produce the best results when executives mobilize organizational energy and communicate their objectives in a clear, comprehensive, and engaging way.

Certain change mechanisms also were correlated with executives' satisfaction with transformation.

The survey, which covered a range of contexts from turnarounds to restructuring, highlights the mixed emotions felt by those on the receiving end of deep-rooted change.

Organizing for successful change management:

A McKinsey Global Survey

Executives say energy and communication are essential for a successful business transformation.

The most successful transformations of business performance occur when executives mobilize and sustain energy within their organizations and communicate their objectives clearly and creatively, according to a new online survey conducted by *The McKinsey Quarterly*.¹ Executives further improve their chances for success if they significantly raise employee expectations, actively change people's behavior, and engage the attention of individuals at all levels of the organization, from top management to the front line.

These and other insights into the change-management process emerge from the survey, in which executives were invited to assess and characterize one transformation they had been involved in during the previous five years. For this purpose, we defined a transformation as a coordinated program, in companies or business units, that typically involves fundamental changes to the organization's strategy, structures, operating systems, capabilities, and culture.

¹ *The McKinsey Quarterly* conducted the survey in June 2006 and received 1,536 responses from a worldwide representative sample of executives at publicly and privately held businesses across a full range of industries, as well as nonprofit and governmental organizations.

Why change?

Transformations come in various shapes. Cost cutting, not surprisingly, is a consistent theme, with more than half of the respondents agreeing that it was a major goal. Half say their company's main objective was moving from good performance to great performance, with 41 percent observing that their company's transformation was the result of a restructuring: merging, splitting up, or divesting a part of the organization. Only 27 percent of the executives were involved with turning around a crisis situation—perhaps the best-known and most headline-grabbing context for change (Exhibit 1).

Exhibit 1

Transformational goals

% of respondents who have experienced a performance transformation in past 5 years¹

What were the main goals of your company's effort at performance transformation?



¹ All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; figures do not sum to 100%, because respondents could select multiple answers; respondents who answered "don't know" are not shown.

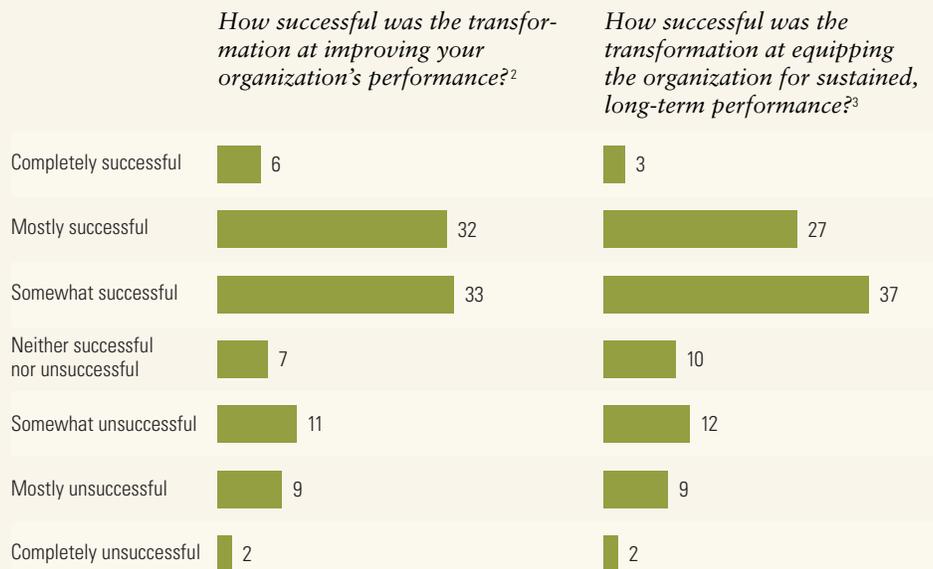
Success is the norm

We asked executives to judge the success of the transformation in two ways. One was to gauge the company's subsequent performance, such as its profitability, return on capital employed, market value, and the like. The other was to measure the extent to which the process laid a foundation for sustaining corporate health over the longer term—through, for example, upgraded capabilities, closer relationships with customers or suppliers, and a positive shift in organizational culture. Respondents are a little more positive about the first yardstick, with 38 percent saying that the transformation was “completely” or “mostly” successful at improving performance, compared with 30 percent similarly satisfied that it improved their organization's health. Around a third declare that their organizations were “somewhat” successful on both counts. About one in ten admit to having been involved in a transformation that was “completely” or “mostly” unsuccessful (Exhibit 2).

Exhibit 2

Evaluating performance and health

% of respondents who have experienced a performance transformation in past 5 years¹



¹ All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; excludes respondents who answered “don't know”; figures may not sum to 100%, because of rounding.

² As measured by, eg, profitability, return on capital employed, market value, lead-time reduction, inventory reduction.

³ With, eg, upgraded capabilities, closer relationships with customers or suppliers, preventive maintenance, or a positive shift in organizational culture.

Transformation takes energy

When we compare the subsequent responses of the 38 percent who characterize their company's transformation as "completely" or "mostly" successful (that is, those who are the top performers) with the entire sample, a striking observation comes to light. Whereas around 30 percent of *all* surveyed executives involved in a transformation say that their organization was "completely" or "mostly" successful at mobilizing energy, this number jumps to more than 55 percent when the responses of only the top performers are included. With regard to *sustaining* that energy, 57 percent of top performers, compared with 28 percent overall, say that their organization was "completely" or "mostly" successful. The contrast between top and bottom performers is even greater (Exhibit 3).

Exhibit 3

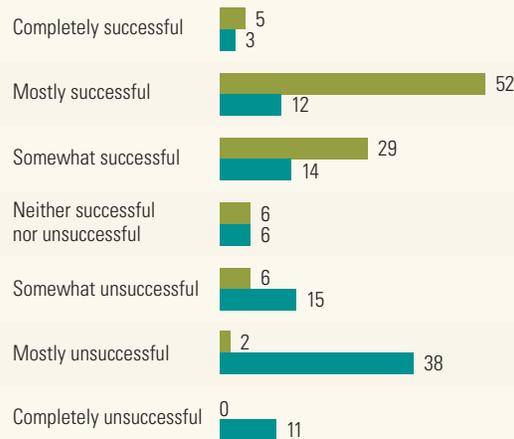
Evaluating organizational energy

% of respondents who have experienced a performance transformation in past 5 years¹

Respondents who report transformation was:

- Successful²
- Unsuccessful²

How successful was your organization in sustaining organizational energy during the transformation?



¹ All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; excludes respondents who answered "don't know"; figures may not sum to 100%, because of rounding.

² Successful includes respondents who reported transformation was "completely/mostly successful"; unsuccessful includes respondents who answered "mostly/completely unsuccessful."

Energy boosters

Asked about the mechanisms the executives used to mobilize and sustain energy, they strongly emphasize the impact of clear, comprehensive, and compelling communication. A majority of all respondents say their organization sought to define clear goals for the next one to two years and communicated the transformation as a compelling story, and a little under half say that their company offered an inspiring view of a better long-term future. Again, the top performers are markedly more enthusiastic about some of the factors that underpin these themes. Three in four, for instance, say that the setting of clear goals was a part of their program. Two-thirds of those respondents say that their company integrated the goals of the transformation program into processes such as budgeting, performance management, and recruiting. And nearly three in five of them say that successes were acknowledged regularly and publicly (Exhibit 4).

Exhibit 4 How to mobilize and sustain energy

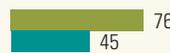
% of respondents who have experienced a performance transformation in past 5 years¹

Respondents who report transformation was:

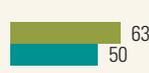
- Successful²
- Unsuccessful²

What mechanisms were used to mobilize personal or organizational energy during your organization's transformation?

Defining clear goals for next 1–2 years



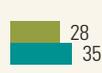
Communicating transformation as compelling story



Offering inspiring view of better long-term future



Bringing in significant number of new senior managers



Highlighting common external threat or enemy

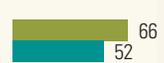


None of the above

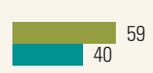


What mechanisms were used to sustain personal or organizational energy during the transformation?

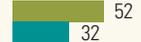
Integrating goals into key processes such as budgeting, performance management, and recruiting



Regularly and publicly acknowledging successes related to transformation program



Building new capabilities



Using dedicated office or team to implement change program, monitor progress



Introducing new incentive system



None of the above



¹ All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; figures do not sum to 100%, because respondents could select multiple answers.

² Successful includes respondents who reported transformation was "completely/mostly successful"; unsuccessful includes respondents who answered "mostly/completely unsuccessful."

The ingredients of success

Further correlations can be made between executives' reports of success in their transformation efforts and specific features of their transformation programs. Respondents with the most successful transformations reckon that their company was conspicuously more effective than the others at raising expectations about future performance, addressing short-term performance, engaging people at all levels of the organization, including a clear and coordinated program design, and making the change visible—through, say, new IT tools or physical surroundings (Exhibit 5). These results reinforce our conviction that confronting these challenges significantly increases the odds for successful change.

Exhibit 5

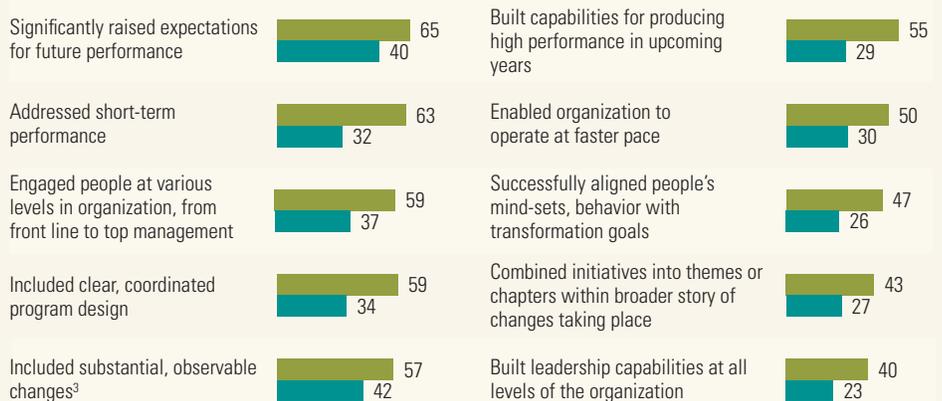
What worked?

% of respondents who have experienced a performance transformation in past 5 years¹

Respondents who report transformation was:

■ Successful²
■ Unsuccessful²

Your organization's transformation was completely or mostly successful in the following aspects:



¹ All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; figures do not sum to 100%, because respondents could select multiple answers.

² Successful includes respondents who reported transformation was "completely/mostly successful"; unsuccessful includes respondents who answered "mostly/completely unsuccessful."

³ For example, new processes, different IT tools, new physical surroundings, a new logo.

What transformation feels like

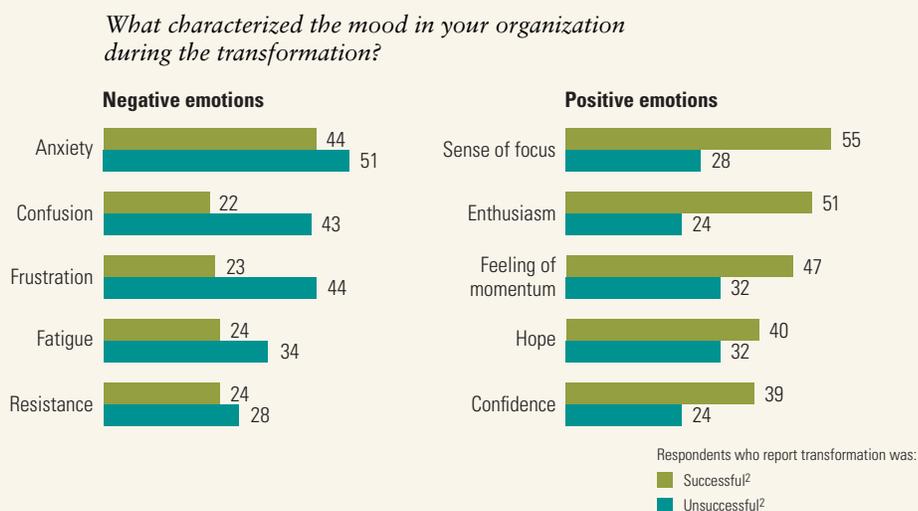
The survey, meanwhile, sheds new light on the nature of the transformation experience for those involved. More than 80 percent of the executives agree that it changed the way they work, though 36 percent of that group say that it did so in ways that differ from the original intentions of the change program. Those affiliated with top-performing organizations are significantly more likely to say they changed in ways that line up with the program's original goals.

Emotions play a leading role in a performance transformation. Overall, the respondents report negative and positive moods in roughly equal proportions, with anxiety (mentioned by 46 percent of all respondents) as the most common negative feeling, well ahead of confusion, frustration, fatigue, and resistance. Among the positives, a sense of focus, enthusiasm, and feelings of momentum occur roughly equally. Not surprisingly, more of the top performers report experiencing the positive emotions—especially focus and enthusiasm (Exhibit 6).

Exhibit 6

The many moods of change

% of respondents who have experienced a performance transformation in past 5 years¹



¹ All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; respondents could select multiple answers.

² Successful includes respondents who reported transformation was "completely/mostly successful"; unsuccessful includes respondents who answered "mostly/completely unsuccessful."



Contributors to the development and analysis of this survey include **Marc Vinson** and **Caroline Pung**, consultants in McKinsey's London office, and **Javier Muñoz González-Blanch**, a consultant in the Madrid office.
 Copyright © 2006 McKinsey & Company. All rights reserved.