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# Driving **radical change**

*Transforming an organization requires clearly articulated aspirations, as well as the ability to generate energy and new ideas.*

**Josep Isern and Caroline Pung**

**Article  
at a  
glance**

Genuine transformations take place on a scale different from that of routine change programs—and are much harder to pull off.

Companies need discipline to handle the different dimensions of a transformation. Two of the most urgent challenges are setting appropriate aspirations and mobilizing energy and ideas.

Aspirations must be clearly defined, broken down into digestible themes, made relevant, and communicated in a compelling story.

Ideas and energy make up the transformation engine. Companies can unleash energy by using proven catalysts



At some point every large organization comes face to face with the need for fundamental change. The decision to act may be prompted by a variety of circumstances: a sharp slide in profitability, enticing new prospects in distant markets, the gathering threat of fleet-footed competitors. Whatever the motive, leaders seldom meet greater demands on their skills than they do when they embark on a major change effort.

What distinguishes transformations from run-of-the-mill efforts? Whether applied to a business unit or to a whole organization, a true transformation is characterized by startlingly high ambitions, the integration of different types of change (organizational, operational, commercial), and a prolonged effort often lasting many months and, in some cases, even years.

Countless surveys, including our own, attest to the difficulty of achieving good results. Only 38 percent of the global executives responding to a 2006 *McKinsey Quarterly* online survey,<sup>1</sup> for example, reported that the recent transformation they knew best had a “completely” or “mostly” successful impact on performance. Around a tenth acknowledged that a change effort they had been involved with was either “completely” or “mostly” unsuccessful.

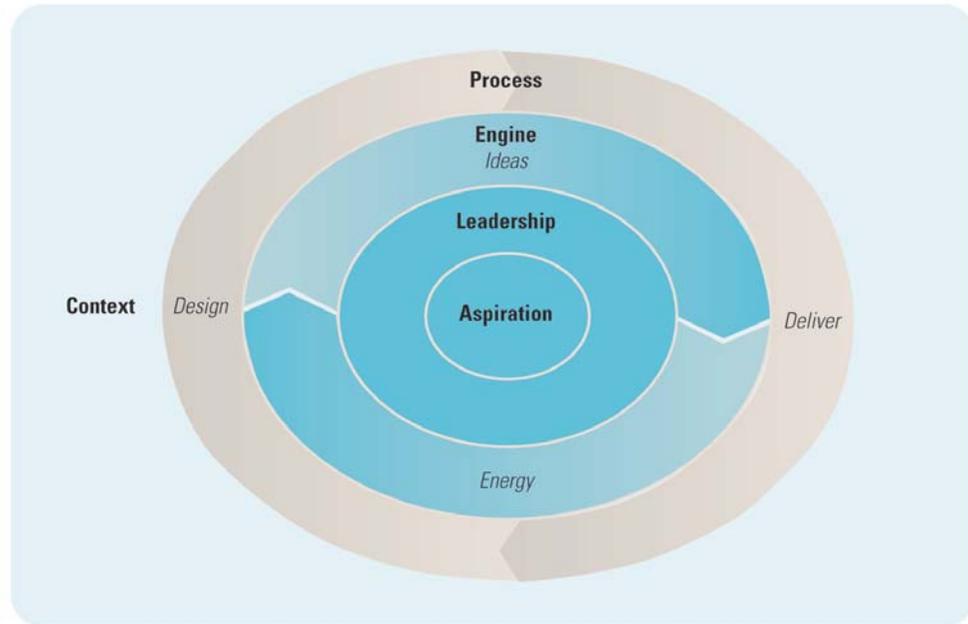
We have studied what goes wrong in many attempted transformations and what distinguishes those that achieve ambitious goals from those that don't. In some cases executives launch a plethora of initiatives that lack the necessary resources, scale, and ambition. We have observed other executives setting appropriate targets but failing to provide the sustained support needed for any long-term improvement. Still other executives focus narrowly on a single objective to the detriment of important related issues.

Exhibit 1 highlights the most important prerequisites: a clear understanding, at the outset, of the transformation's context (for example, the organization's capabilities and readiness to change), well-articulated aspirations, leaders who unleash energy and ideas, and a rigorous process. Transformations tend to feel chaotic by their dynamic nature, so it is vital that leaders across the organization take a disciplined approach to each of these requirements.

EXHIBIT 1

**Ingredients for a successful transformation**

**The dynamic nature of transformations requires a disciplined approach across a number of different elements.**



In our experience, two issues are particularly pressing for CEOs and top teams. One is setting an appropriate and inspiring aspiration, or vision, for change—and making it come alive for everyone. The other is mobilizing and sustaining the transformation “engine”: the flow of energy and ideas needed to drive the organization forward.<sup>2</sup>

In this article we set out guidelines for addressing these important topics. Some may find the guidelines rather intangible, but as practitioners we know that getting such things right can mean the difference between managing change successfully and frustration—even failure. Managers who have attempted transformations will recognize in what follows some of the challenges and opportunities they have encountered.

**Setting the aspiration: Getting off to a good start**

A well-articulated aspiration for a transformation connects and inspires people inside the company and beyond. To achieve this goal, leaders must define the aspiration at the outset, break it down into clear themes and initiatives, spell out what it will look like at stages along the journey, and translate it into an exciting

story.

#### Defining the aspiration

Each company is different and every transformation effort unique. Yet the central goal of any transformation should be a sustainable step change in a company's performance and health.<sup>3</sup>

Defining a transformation in this spirit unites the disparate elements of organizational change. It underlines, for example, the importance of improving profitability, market value, and returns on capital employed—all things executives routinely think about in the context of performance. But it also highlights the imperative of corporate health. This metaphor, consciously taken from human health, encourages executives to think about the organization as a system whose parts are mutually interdependent.

When leaders emphasize organizational health and performance in the way they frame and articulate the aspiration, they lock in the goal of lasting, sustainable change. The idea of a step change is significant as well because a successful transformation always moves the organization onto a higher plane. Spelling out the idea encourages everyone to aim high, shun incremental thinking, and move at a brisk, unfamiliar pace. Sandvik Materials Technology,<sup>4</sup> a leading Swedish producer of advanced alloys and ceramic materials, whose transformation has taken it to a new level of performance, implicitly and memorably captured all the elements by aiming to become “the Toyota of the metals industry.”

#### Designing the architecture

The magnitude of the challenge can paralyze companies embarking on a transformation. Where to start? What and how to prioritize? How to allocate tasks across the organization? These problems are particularly severe at crisis-plagued organizations fighting fires on a number of fronts.

Leaders therefore need to outline clear themes whose objectives will collectively achieve the overall aspiration. These themes should be broken down into specific initiatives, and the company should make it clear how they will be sequenced and how they will relate to one another. This approach makes change seem not only manageable and realistic but also personal and exciting. Articulating exactly which functions, geographies, and product lines will be affected, moreover, reduces unnecessary anxiety in the organization.

In our experience there should be three to six themes—three seems to be the minimum number of digestible chunks; more than six becomes unwieldy. Some themes might focus on a distinct business area (frontline outlets for a retail bank, for example, or upstream production for an energy company). Others might aim to

capture synergies and efficiencies across business units (say, by strengthening the company's leadership, reducing costs, or applying lean approaches to operations). However defined, each theme should have clear leaders and be as distinct and self-contained as possible to avoid confusing overlaps.

#### Bringing it closer

A timetable of three to five years, typical for the overall aspiration of a transformation, can seem too distant for managers and employees preoccupied by short-term pressures. The next challenge is therefore to take the overall aspiration, as well as the themes and initiatives, and translate them into descriptions of what the company will look like at various points along the journey—the projected halfway mark, for example.

Rearticulating goals in this way is desirable for two contrasting reasons. On the one hand, the midpoint is sufficiently close at hand to be described in highly tangible and specific ways. Such concreteness, which isn't characteristic of longer-term visions, helps employees to see the way forward and to feel personally accountable for specific targets. On the other hand, the fact that this intermediate target is just a station along the way reinforces its status as something to be not just achieved but also surpassed. An overall goal of one million new customers in three years might, for example, be broken down into progressively more demanding annual targets.

The trick is to be both ambitious and realistic—understanding that intermediate goals represent not a compromise in aspirations but a way to connect the present to the long-term future. Spelling out all the critical changes in a series of From–To messages will help. Any future targets should usually be embodied in both quantitative and qualitative metrics, with concrete references to internal or external benchmarks.

#### The transformation story

After the aspiration has been defined satisfactorily, broken down into a clear architecture, and brought closer to the present, top management confronts the final step: communicating the aspiration in a way that resonates with people and engenders a positive response.

A good transformation story bridges the gap between top management and the rest of the organization. Typically using metaphors and analogies to explain what's at stake, it addresses three key aspects: the case for change, the challenges and opportunities ahead, and the impact of change on individuals. The story should be written by the leadership in prose, not bullet points. Good stories also confront the emotional angle—the need to bid farewell to cherished habits and routines and to embrace a different, and perhaps initially uncomfortable, future.

Symbolic anecdotes help. A hospital that set out to unite its staff around the needs of patients, for example, highlighted the way an obstetrics team had combined hard management data and the doctors' experiences to identify (and address) the cause of high mortality rates among part of an immigrant population that the hospital served. This episode vividly illustrated the collaborative behavior and analytical approach to problems that the hospital expected from everyone else.

Leaders should tailor the story to their audience, invoking the organization's heritage to inspire loyalty and affection and injecting their own personalities into what they say or write. As we have observed in two recent transformations—one involving a major retailer in Latin America, the other an energy company in Europe—this approach can be especially powerful coming from people known for their reluctance to talk about themselves. Sharing feelings and personal-development goals in an open, honest, and even humble way enhances a leader's credibility and authenticity.

### **Energy and ideas: Fueling the transformation engine**

Just as a car won't move without its engine, so too a combination of energy and ideas is crucial if an organization is to undergo sustained and successful change. Many projects falter because of a dearth of good ideas. Others never make good on their aspirations because the change agents spearheading them, exhausted by the demands piled on top of their day jobs, run out of steam.

Our survey vividly highlighted the importance of energy (Exhibit 2). Strikingly, 57 percent of the executives involved in what they deemed successful transformations also said that their organizations had been "completely" or "mostly" successful at sustaining organizational energy. But only 15 percent of those involved in unsuccessful transformations did.<sup>5</sup> Energy levels inevitably need revitalizing at some point in the transformation (see sidebar, "Maintaining the momentum of change").

How can executives ignite, fuel, and sustain the transformation engine—this potentially powerful mix of energy and ideas? Getting the aspiration and the transformation story right is an important start, but the challenge is to maintain the momentum.

EXHIBIT 2

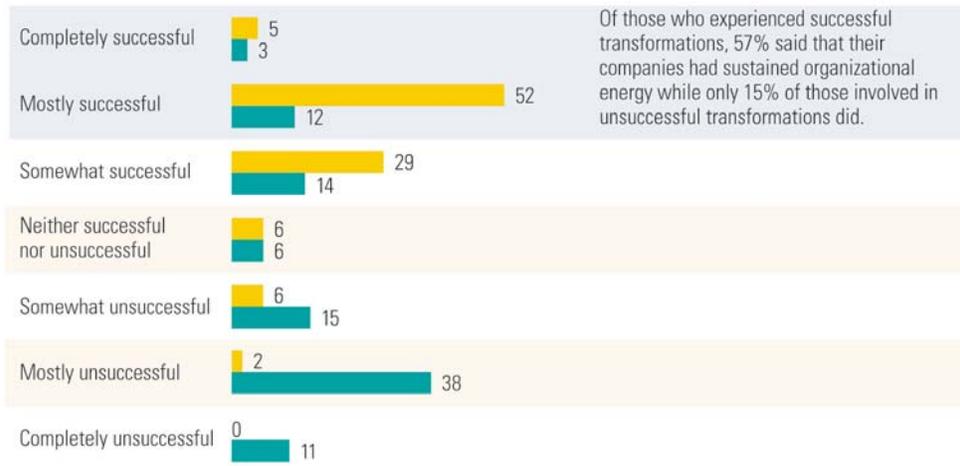
**Sustaining energy**

% of respondents who have experienced a performance transformation in past 5 years<sup>1</sup>

Respondents who report transformation was:

■ Successful<sup>2</sup>  
■ Unsuccessful<sup>2</sup>

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



<sup>1</sup>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.

<sup>2</sup>“Successful” includes respondents who reported transformation was “completely” or “mostly” successful; “unsuccessful” includes respondents who answered “mostly” or “completely” unsuccessful.

Ideas

The power of the big idea is implicit in the aspiration. Less well appreciated is the way each theme and the initiatives underlying it depend on a flow of good ideas. Leaders should guard against common pitfalls. The first is the common misapprehension that generating ideas is an esoteric art requiring unusual levels of personal creativity or the teachings of the latest innovation guru.

Another misapprehension is the willingness to be satisfied with ideas that are merely good enough, which cannot be energizing, because such ideas don’t stretch an organization and its people. Established orthodoxies must be broken and innovation encouraged, so don’t let unconventional ideas fall victim to hierarchy, bureaucracy, or silos (or all three). A major industrial group seeking ideas to deepen its client relationships discovered that its separate product teams were being introduced to one another by customers rather than working together before visits. The company realized that a deep-rooted structural rigidity hindered initiatives to

pool client insights across the organization.

Leaders can avoid these traps by clarifying their expectations right from the start and reinforcing those expectations throughout the transformation. They should emphasize that practical, small-scale solutions can be as useful as big, groundbreaking ideas and take care to provide guidance on what needs improving and where orthodoxy and conventional thinking are best challenged. Four types of ideas are particularly important:

*Why change?* In a turnaround, the overall reason for a transformation is usually obvious. But leaders trying to, say, globalize an already profitable company need to explain carefully what they want to achieve. Ideas for articulating the “why” are essential—both for the overall transformation and for a small part of its implementation, such as a local alteration to the work flow of a single product line.

*What to change?* Leaders must encourage the organization to take a hard look at which functions, geographies, or product lines to change. Which processes need streamlining? What aspects of operations are outdated? What new market opportunities can be tapped? Project teams will inspire new ideas by drawing on people from different, and seemingly unrelated, parts of the organization.

*Whom to change?* Transformations are about changing not only things but also people. Leaders must identify key roles that will have to be adapted to support the objectives of the transformation. In addition, they must select teams of change agents to drive it at all levels of the organization. Crucially, they need to agree on how they will change themselves to “live the change.”

*How to change?* Practical and specific solutions that demonstrate how to reach financial or operational targets are especially valuable. Will reducing waste by installing a new process help to achieve the goal for a particular plant, for example, or should the shop floor be reconfigured? Ideas on the processes for instilling change and building new skills and on fresh ways to engage people are always needed as well.

Wise leaders establish disciplined processes for generating and developing ideas. The first phase of every initiative, for instance, should allow time and space for creativity. Incentives should encourage people not only to come up with ideas but also to share them widely.

### Energy

Most leaders acknowledge the importance of energy in organizational change—but many struggle to unleash it or keep it at high levels over time. Executives, for example, typically get excited about a big idea and dive straight into initiatives and task forces, wrongly assuming that one speech from the CEO will get everyone on

board.

Negative energy—cynicism and obstructive behavior—must also receive attention, especially early in a transformation. It can be dissipated in a variety of ways: for instance, by removing or converting a de-energizing person, ensuring that visible successes emerge quickly, eliminating unnecessary and irritating bureaucratic nonsense (including low-priority, energy-sapping tasks), and emphasizing fair processes.

Energy is not an issue just at the outset. Many transformations generate excitement and hope in their early stages, but the executives driving them fail to harness that enthusiasm and channel it behind powerful ideas. Unless employees receive clear direction and an understanding of how they themselves can contribute to the overall goal, their energy will flag rapidly. Likewise, they will flounder if they face too many conflicting transformation priorities. Clearly, it's not enough to mobilize or unleash energy; it must also be channeled appropriately.

In our experience the best leaders use a range of catalysts—practical mechanisms to mobilize and sustain energy—and don't just stick with those that reflect their natural biases. Some prefer formal systems and processes to engage employees in initiatives. Others are inclined toward single, unexpected actions, such as the appointment of an “ideas champion” or the sudden dismissal of a blocker. Both approaches are needed.

What are these practical catalysts for energy? We have already discussed two crucial ways of unleashing it: a well-crafted, ambitious aspiration and a clear transformation architecture that engages people. We've also observed that positive energy is likely to be uncorked if leaders actively drive the pace of change, embed it in specific ways, make it personal, and ensure that the company takes advantage of opportunities to upgrade individual and organizational skills. Our research suggests that the more of these catalysts companies use, the better.<sup>6</sup>

#### Managing the pace

Some leaders, believing that a uniformly brisk pace cannot be achieved across an entire organization, set out to run a large number of parallel initiatives at a moderate tempo. They fail to consider the de-energizing effect of that approach: inertia reestablishes itself and courage fails.

Imagine an aerial view of a fleet of ocean liners moving at five to ten knots an hour. Without binoculars to detect the bubbles thrown up in the wake of these ships, an onlooker has no sense of their movement at all. Now imagine a few speedboats zipping among them. The picture immediately becomes dynamic.

Transformations are similar. A smaller set of high-impact, briskly moving initiatives

is more energizing—and thus more sustainable—than a broader set of initiatives moving at a stately pace.

#### Embedding change

Managers invariably understand the practical importance of getting points on the board. But as a transformation proceeds, there is some risk that this kind of brainstorming, experimentation, and piloting will give the impression that nothing has really changed. All steps seem tentative; none are consolidated. Leaders who welcome questioning can appear indecisive rather than consensual.

Changes should be highly visible—a new shop floor or office layout, say, or a novel approach to branding. Taking such steps signals the company’s commitment to change, and taking them early heads off the sense that the effort consists solely of endless preliminaries. Furthermore, this approach translates the grand vision of transformation into a personal reality by instilling in individuals the belief that “this time something is really different.”

#### Making change personal

To build hope and conviction, employees need role models who embody specific ideas in a visible and meaningful way. What might initially have come across as a slogan (a new customer-focused way of working, for example) springs to life when demonstrated in person. A well-tailored transformation story also helps to make individuals understand what must change and why.

Used intelligently, structures, systems, and incentives align individuals with the goals of the transformation by rewarding certain sorts of behavior and discouraging others. It is no longer enough just to motivate employees to perform: they must also be motivated to transform themselves and the organization. Energy for change emerges from reflections on what’s needed and why and on what change means for each employee and for the colleagues with whom he or she has strong emotional ties.

#### Building capabilities

Decades after their school years end, adults can be as invigorated by learning as children are. Wise leaders understand this and find that capability building—perhaps a couple of years into a transformation—helps fuel new energy when other aspects of the process start feeling routine. Changes that involve learning and growth, either in technical or interpersonal skills, can be especially powerful. People have a remarkable appetite for difficult change when they see a transformed version of themselves emerging from the process.

Identifying and filling gaps in organizational capabilities also unleashes new energy. As energy levels sagged at a chemical company in an emerging market after the first 18 months of a transformation, for example, the company developed its own corporate academy, designed and led by line managers, to build the skills needed to

meet its business objectives. Whatever the specifics, success will hinge on a thoughtful application of adult-learning principles and a readiness to invest substantially in the effort. 

### **Maintaining the momentum of change**

Transnet—South Africa’s state-owned operator of railways, locomotives and wagons, ports, and pipelines, as well as Africa’s largest transport and logistics group—knows a lot about energy. Every week, after all, its 6,500-foot megatrains haul coal and iron ore from the mines of Mpumalanga and the Northern Cape to the distant ports of Cape Province and KwaZulu-Natal. These commodities, moved by ship to their final destinations, fuel power stations and blast furnaces all over the world.

Recently, however, Transnet has been learning about a different kind of energy—the human variety. Without it, successful large-scale organizational change is difficult, perhaps downright impossible.

The company’s transformation was sparked by the decision of South Africa’s government to appoint a new board and CEO with a mandate to optimize the country’s freight transport and logistics system—vital for economic competitiveness. One of the board’s first actions was to clarify hitherto-blurred lines of authority by redefining its own role and that of the senior-executive team. Then management, having analyzed the problems, proposed a focused plan, communicated the aspiration for change across the organization, and set out to establish what the company could and couldn’t do on its own.

Within months the company appointed a team to drive change. The initial focus was on implementing good ideas: fresh standard operating procedures were distributed, mechanisms to show accountability prepared, and a new generation of powerful locomotives ordered from suppliers.

However, not everyone at Transnet understood that an enormous amount of organizational energy would be needed to translate these good ideas into improved performance. Within three months, problems were piling up: unions complaining about a lack of consultation blocked a new crew-management system; cumbersome procedures delayed important appointments in the engine yard; and a shortage of trained supervisors undermined efforts to speed up services. Employees began to question the new operating approach. Previously bullish managers showed signs of losing faith in their ability to deliver. Calls were made to slow the pace of change and revise the financial targets. Despite continued commitment and support for change from the board and senior management, the organization felt that it was entering what we call the “valley of desolation.” Transnet’s transformation journey had stalled.

As executives who have been through similar experiences will confirm, the South African company was in no way unique. Many transformations kick off with a rush of enthusiasm, only to falter six months down the line. At best a wheel or two comes off before repairs are made and momentum is restored; at worst the project hits the buffers.

What can leaders in this precarious position do to rekindle enthusiasm, overcome organizational inertia or frustration, and get the project back on track? Can they manage

the organization's energy to avoid the "valley" in the first place? The Transnet case and our experience working with other businesses in similar situations provide some answers. By applying techniques to measure the energy levels of key leaders, we find, companies increase the odds of meeting their transformation objectives.

To identify the factors that create and consume energy, we developed a simple energy meter based on answers to roughly 60 questions in ten separate dimensions—strategy, skills and values, staff issues, stakeholders, and equipment, among other things. By mapping the responses, companies can identify the areas where energy is dissipating, as well as why.

In Transnet's case the 30 members of the joint project and line-management team sifted out the priorities from anecdotal accounts of irritations and daily calls for "firefighting." Clearly, for example, effort was urgently needed to get representatives from all parts of the value chain to agree on plans and targets. In some cases plans were modified; in others people changed their minds and committed themselves to the previous plan. A team was set up to address the availability and reliability of equipment. Existing staffing processes were refined so that the lead time for new recruitment dropped to 21 days, from six months. A program was introduced to develop the basic skills of 1,000 supervisors, and an audit of equipment and infrastructure led to the allocation of additional funds for maintenance and the earlier removal of rolling stock that wasn't fit for duty.

Two months after implementing these changes, Transnet began to achieve record production in key areas: for example, coal deliveries jumped to more than 95 percent of scheduled volumes, against less than 90 percent previously. After several tough months the company implemented a new operating model, touching all employees from top management to frontline worker and covering areas such as planning, execution, and maintenance across the whole rail corridor. Transnet is currently using the lessons of that effort to accelerate the rollout of the performance-improvement program to other parts of the logistics network. Profits and productivity are up, costs down.

Shareholders' capital and reserves have grown fourfold, and for the first time in years pensioners and employees have received substantial bonuses. These successes have generated energy for the next stage of the transformation program and renewed the organization's commitment to it.

In our experience project teams must assess themselves instead of being assessed by an outside party. Organizations should gauge their energy levels at four critical points along the transformation journey: at the start (to ensure alignment on the context and objectives), when executives sign off on implementation plans, throughout implementation, and during the final handover from the project team to the line.

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<sup>1</sup> “Organizing for successful change management: A McKinsey Global Survey,” *The McKinsey Quarterly*, Web exclusive, July 2006.

<sup>2</sup> The section on energy draws on the concept of organizational energy, developed by Professor Heike Bruch and colleagues of the Institute for Leadership and Human Resource Management at the University of St. Gallen (Switzerland). It also includes further development based on a series of interactions with Professor Bruch; Professor Andrew Pettigrew, of the University of Bath School of Management (the United Kingdom); Professor Michael L. Tushman, of Harvard Business School (Boston, Massachusetts); and Professor Veronica Hope-Hailey, of the Cass Business School, at the City University (London).

<sup>3</sup> By corporate health we mean the qualities, attributes, and actions today that will help sustain performance in the future.

<sup>4</sup> Johan Ahlberg and Tomas Nauc ler, “Leading change: An interview with Sandvik’s Peter Gossas,” *The McKinsey Quarterly*, Web exclusive, January 2007.

<sup>5</sup> For the results of quantitative McKinsey research confirming this point, see Josep Isern and Caroline Pung, “Harnessing energy to drive organizational change,” available free of charge online at [www.mckinsey.com](http://www.mckinsey.com).

<sup>6</sup> Josep Isern and Caroline Pung, “Harnessing energy to drive organizational change,” available free of charge online at [www.mckinsey.com](http://www.mckinsey.com).

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