

McKinsey
& Company

The Secret of Transformations

Rami Goldfajn

Sócio – McKinsey Transformations / RTS

June 2019

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company
is strictly prohibited



What do the companies in these three groups have in common?



Group A

American Motors, Brown Shoe, Studebaker, Collins Radio, Detroit Steel, Zenith Electronics and National Sugar Refining.

Group B

Boeing, Campbell Soup, Deere, General Motors, IBM, Kellogg, Procter and Gamble and Whirlpool.

Group C

Facebook, eBay, Home Depot, Microsoft, Google, Netflix, Office Depot and Target.

What do the companies in these three groups have in common?



Group A

All were in the Fortune 500 list in 1955, but not in 2016



Group B

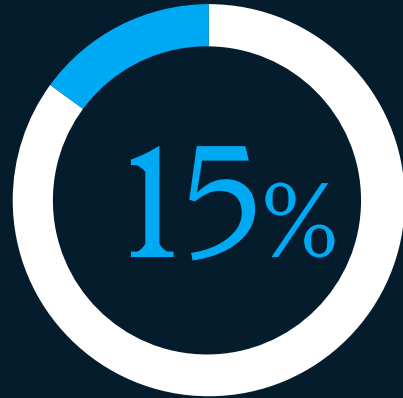
All were in the Fortune 500 list both 1955 and 2016



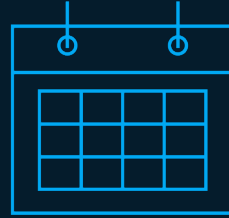
Group C

All were in the Fortune 500 list in 2016, but not 1955

Did you know that...

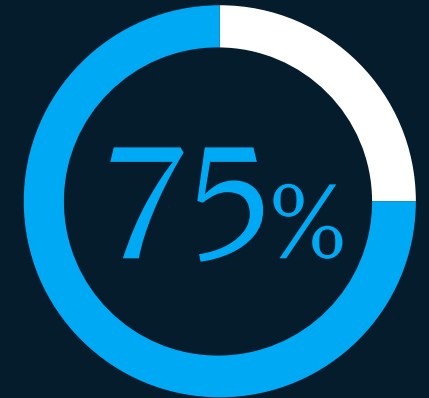


Of S&P 500 companies
in 1955 that still remain in this
index today



15 years

Life expectancy of a listed
company (60 years in 1955, and
not more than 30 years in 1980)



Of the companies in the index
that will not be in by 2029

Transformations are not only necessary for those companies
in financial difficulties; Permanent transformation is essential
for all companies

Most transformations fail

70%

of organizations fail in their transformation

30%

of transformations reach their full potential



What is the purpose of a transformation?

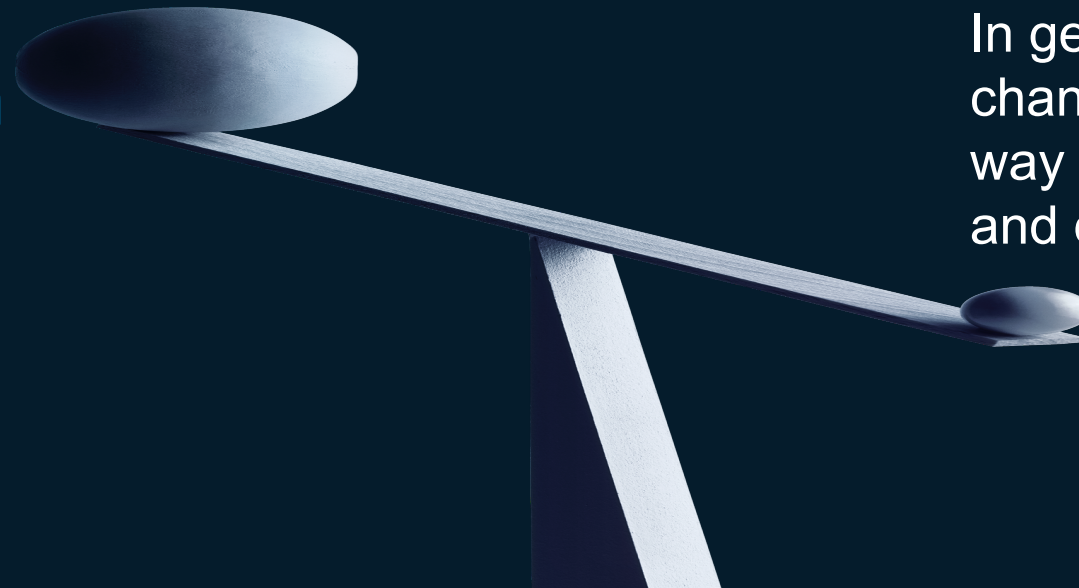
Just results?

A process that generates results, but is also repeatable, replicable and SUSTAINABLE

OR

Almost all CEOs can generate short-term results

In general, a fundamental change is needed in the way business is carried out and decisions are made



How we think about Transformations



A successful Transformation is *NOT*...

A cost-cutting exercise

A “project” or an “event”

Just about generating ideas

An ad-hoc method

A consultant-driven model



A successful Transformation IS:

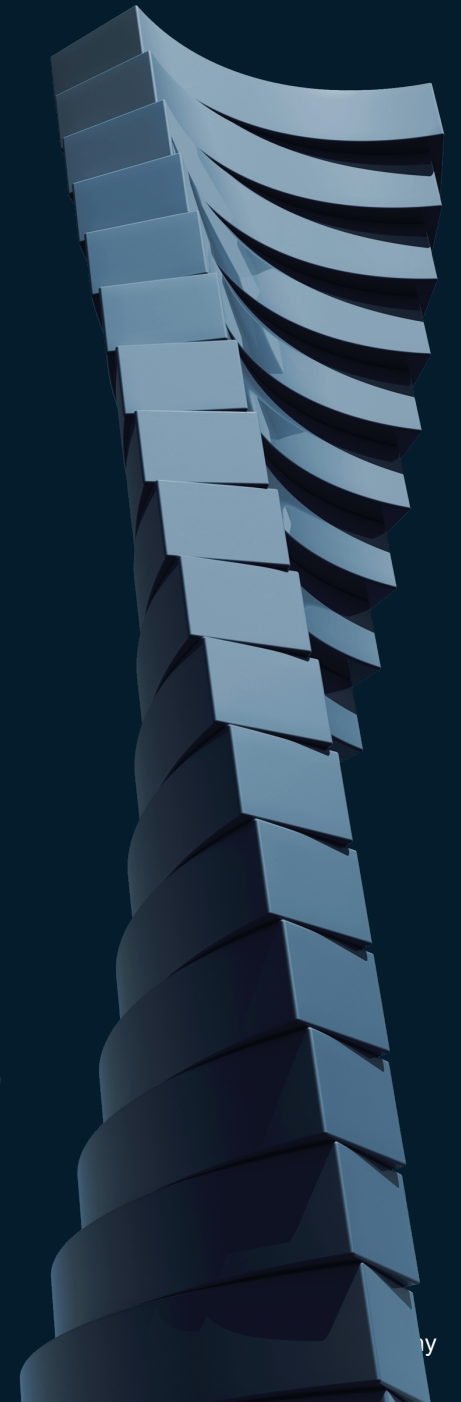
An approach that tackles all levers

A new way of running the organization

Includes the “what”, the “how”, and the “why”

A set and proven approach

A line-driven model



Survey for the audience

- 1** What is the importance of aligning the entire top team (direct reports to the CEO) before starting a transformation?
- A Very important - Everyone must be aligned
 - B Moderately important - You must have most on board
 - C Little importance - Only the CEO, CFO, and COO
 - D It's not important - Just the CEO

Survey for the audience

- 1** What is the importance of aligning the entire top team (direct reports to the CEO) before starting a transformation?
- A Very important - Everyone must be aligned
 - B Moderately important - You must have most on board
 - C Little importance - Only the CEO, CFO, and COO
 - D It's not important - Just the CEO

D

**It's not important-
Just the CEO**

Survey for the audience

2 How important is discipline in this process?

A Very important

B Moderately important

C Not very important

D Not important

Survey for the audience

2 How important is discipline in this process?

- A Very important
- B Moderately important
- C Not very important
- D Not important

A

Very important

Survey for the audience

3 How long does it take for a transformation, for top tier companies, to produce impact and sustained cultural change?

A More than 5 years

B 3-5 years

C 2-3 years

D 1-2 years

Survey for the audience

3 How long does it take for a transformation, for top tier companies, to produce impact and sustained cultural change?

A More than 5 years

B 3-5 years

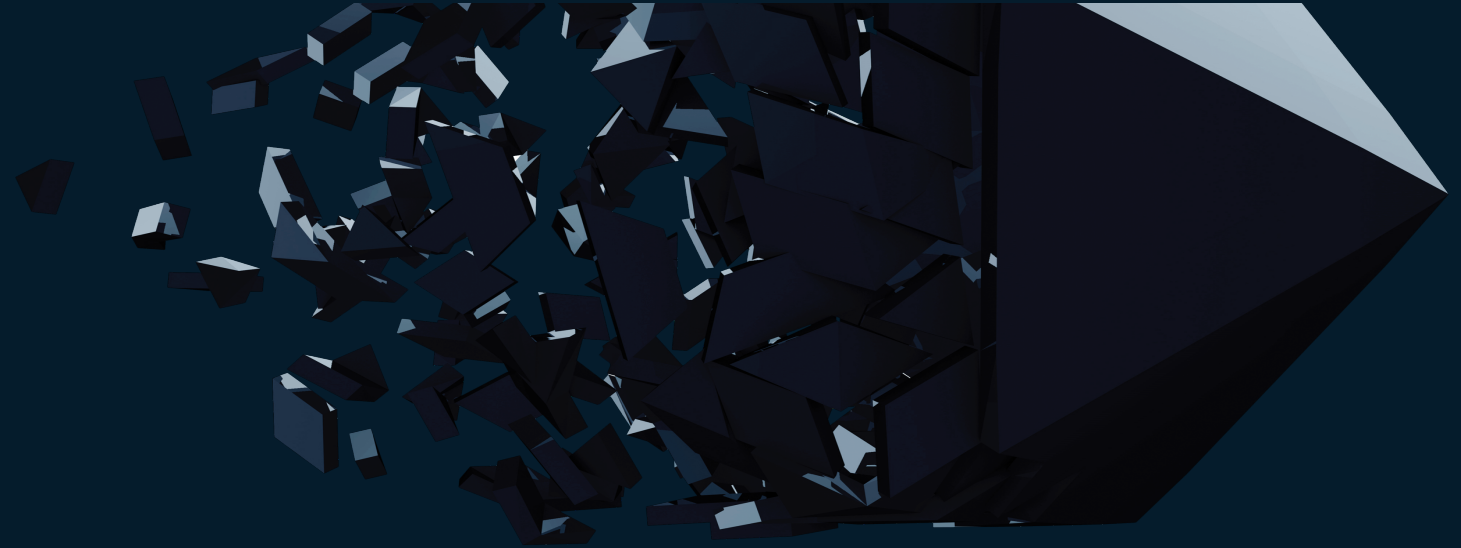
C 2-3 years

D 1-2 years

C

2 - 3 years

What are our beliefs about transformations?



01

Most of the efforts, including those with consultant support, fail. ~ 70% do not reach the target, take too long or are not sustainable. Many fail before starting

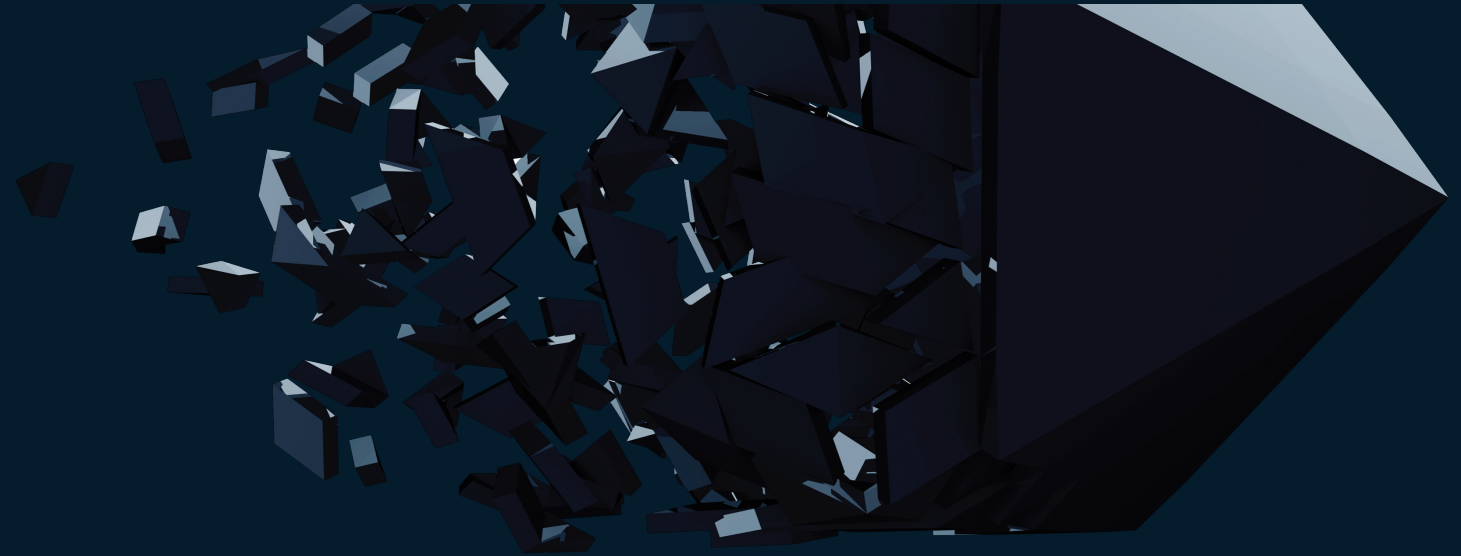
02

Execution is critical. Knowing what to do is seldom the issue. In general, the problem is to get it done at scale, at the necessary pace, and in a sustainable way

03

"Business-as-usual" people and processes rarely deliver significant change. Transformational change requires different people and processes. Most managers and companies do not have the experience to lead large-scale, radical change efforts

What are our beliefs about transformations?



04

Mindset matters.

The only way to make fundamental change happen is to create a desire across the organization to do much better

05

You can't cost-cut your way to greatness.

Great businesses create equity value over time by addressing all levers and multiple time horizons

06

Leadership is critical.

You must inspire your teams to accept the challenge of taking a more difficult but rewarding path.

So, why don't transformations succeed?



They **aspire** for only 70% of full potential



...and deliver at 70% of the **pace** possible



...and **sustain** only 70% of the value delivered

What it looks like

Targets are negotiated; not developed using an independent lens

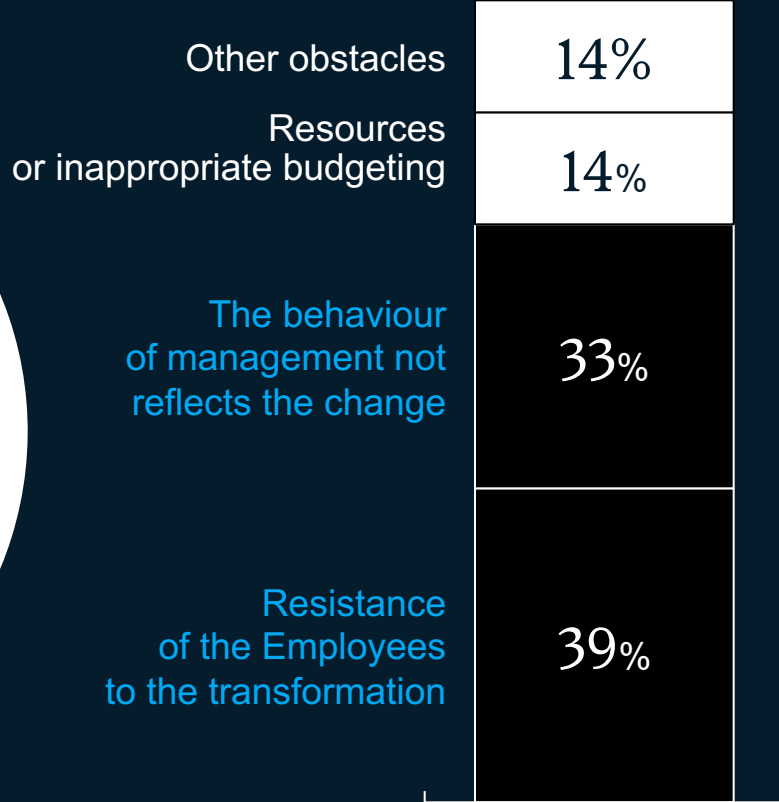
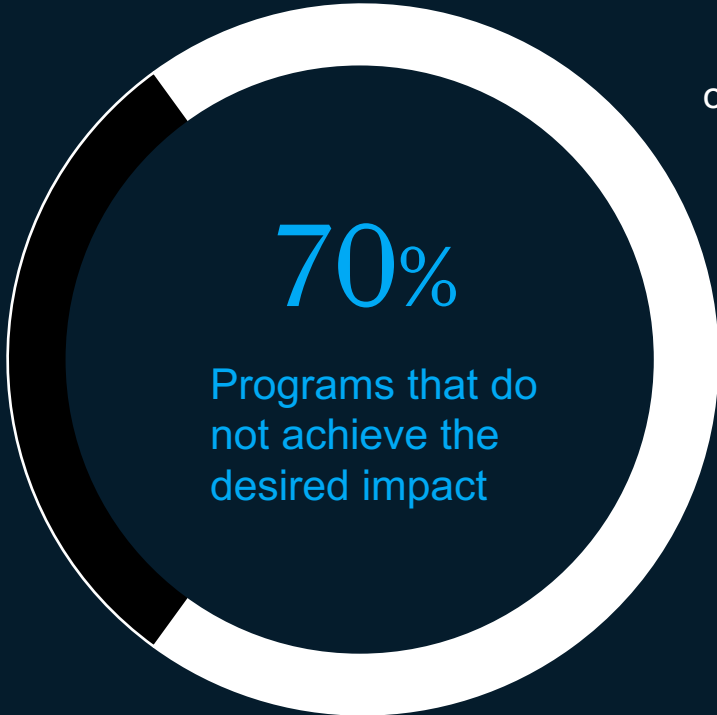
Transformation is treated as a “project” with a typical PMO

Initiatives aren't linked to the P&L, and ignore mindsets and capabilities

The collective impact is that most transformations deliver only a fraction of an organization's full potential

Why do most transformations fail?

Because of the aspects connected to people



Resistance of the organization



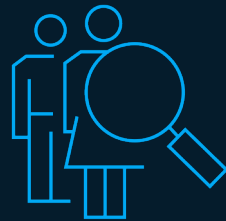
Transformations fail because the organization does not fundamentally change the way it operates. The organization returns to "old habits" and change does not happen.

Expected outcomes of a transformation



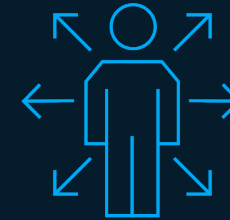
Financial Performance

- Radically improve operating results
- Drive revenue growth
- Improve cost structure
- Optimize portfolio choices and strategy
- Improve capital efficiency and free-up cash



Organizational Health

- Drive changes in mindsets and behaviors to lift performance across the entire business
- Dramatically improve employee motivation and execution discipline
- Embed new tools and practices to ensure improvements stick



Capabilities

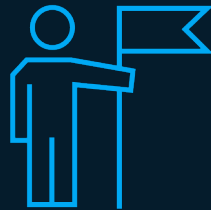
- Identify, fully develop, and coach the next generation of leaders
- Build execution “muscle”
- Improve decision-making pace and rigor
- Strengthen leadership team operating model

A successful transformation requires a holistic and rigorous approach



Independent perspective

Use impartial data to analyze the potential of the transformation



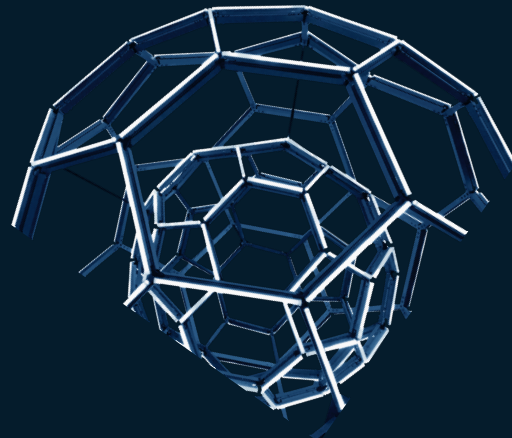
Leadership guidance

Transformation must be a priority for the leadership of the organization



Organizational health and capacity building

Improve the organization's culture and capabilities to achieve value in the long term



A successful transformation requires a holistic and rigorous approach



Ownership Mentality

Take calculated risks based on potential long-term impact



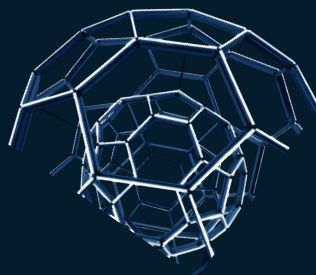
Relentless execution

Implement a disciplined strategy for execution with transparent methods that track achieved impact



Employee empowerment

Empowering employees to set goals and assemble execution plans



A successful transformation takes into account all levers within an organization

Strategy

- Portfolio decisions
- Segment and Market strategy
- Business Model/organization
- Resource distribution
- Capital Markets Strategy



Growth

- Customer Experience
- Sales and Marketing
- Effectiveness
- Channel Management
- Pricing

Performance

- End-to-end processes
- Value chain
- Research and innovation
- Services and Support
- G&A

Capital

- Financial strategy
- Capex
- Balance Management
- Working Capital Management

Transformations need to focus on Performance and Health with the same rigor

Performance



Organizational Health



Simply put, health is
how you manage
the company

The work will
be done
differently

The company
will be
administered
in a different
way

People will
think and
behave
differently



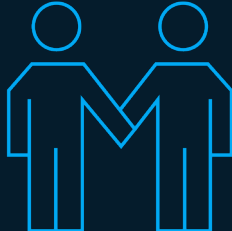
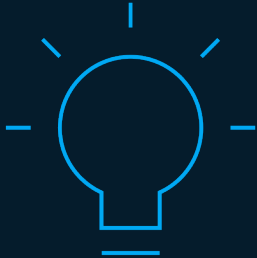
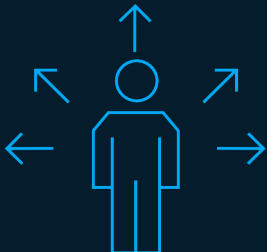
Organizational health boosts Performance

Total Return to shareholders (RTA) per health level (average of 8 years)

Health RTA over time



Organizational health can be evaluated through 37 management practices, and 8 of them are critical during a transformation



Set a clear targeting

Strategic clarity

Shared Vision

Make it clear/meaningful to employees

Employee involvement

Role clarity

Seek ideas and innovation in and out

Capturing external ideas

Innovation Bottom-up

Develop operational discipline in a supportive way

Execution Discipline

Supportive Leadership

How to change mentalities: the model of influence

A convincing story

"... I understand what you expect from me and I believe it makes sense. "

"... I see my leaders, colleagues, and employees behaving differently. "

Role Modeling

Reinforcement mechanisms

"... I observe that our structures, processes, and systems sustain the changes that await of me. "

"... I have the skills and opportunities to learn how to behave in a new way. "

Required Skills to the transformation

"I'll change my mentality and my behavior... "

The influence model: what the data shows

Greater probability of a very or extremely successful transformation when quadrants are used

Compelling story

3.7x



Role Modeling

4.1x

Reinforcement mechanisms

4.2x

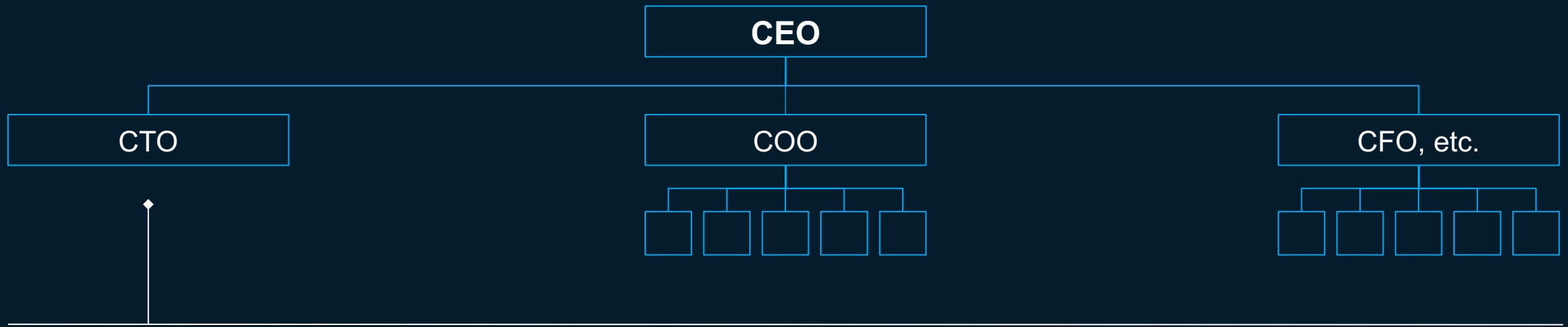


Development of necessary skills

2.4x

Transformations that use the four quadrants are 8 times more likely to succeed than those that only act in a quadrant

What is the role of a Chief Transformation Officer (CTO)?



CTO role

CTO is a “change leader” of the company, responsible for spurring a radical re-think of the operating model and conventional wisdom

Operates as an extension of the CEO – has the positional authority and mandate to make decisions across personnel, investments and operations

Pushes managers to re-examine how things are done, challenging their assumptions about what is possible

CTO does not replace line leaders, but rather provides “leverage”, so that the turnaround initiatives and day-to-day business runs at full speed in parallel

Step-change in performance management: Rigorous, weekly cadence to drive rapid progress

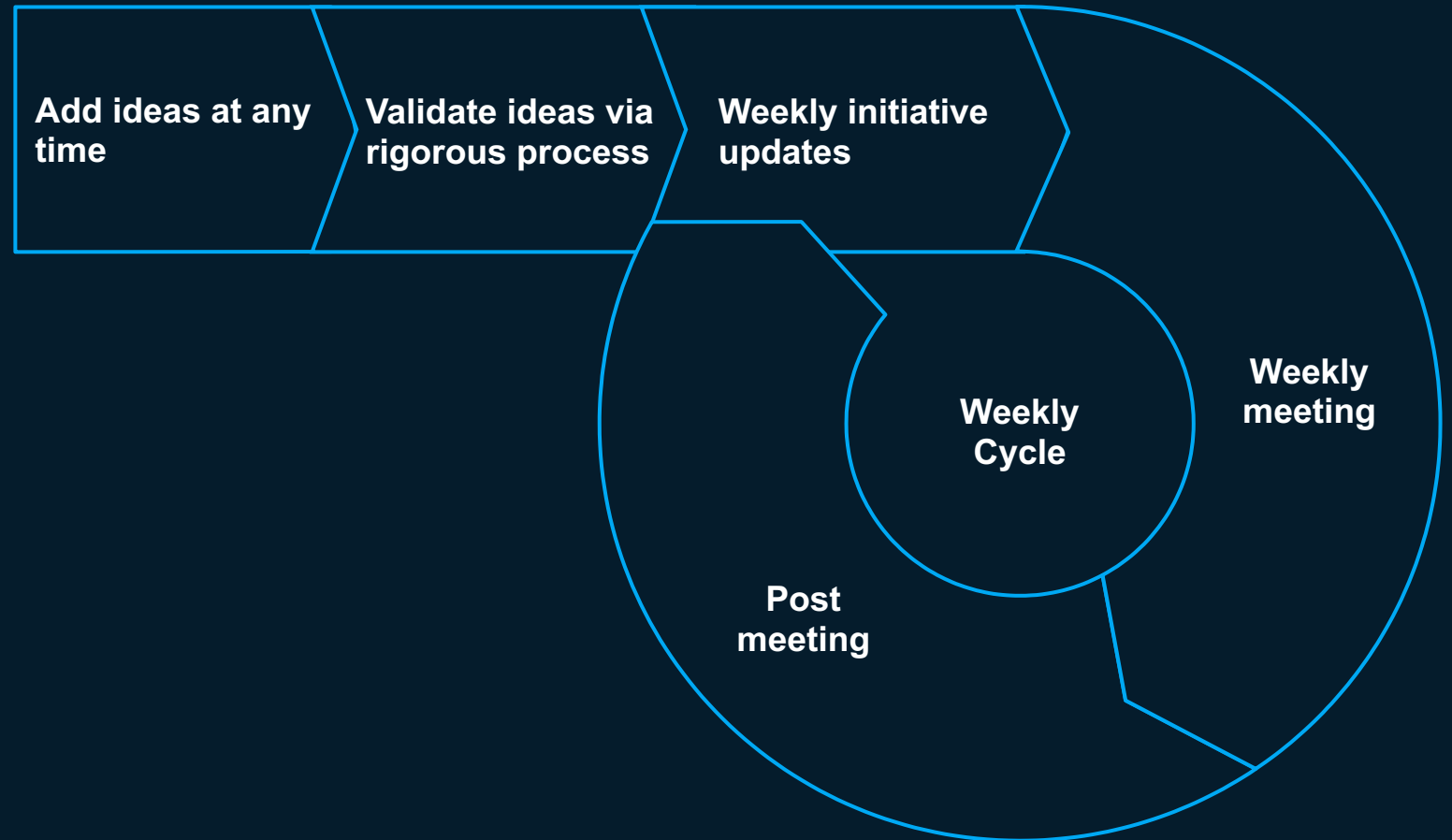
Empowered to make decisions

Use a common language and goals

Rigorous forward – looking review

Asks about maximum potential

Take specific, timed, owned actions – and follow up



Some conclusions we have compiled from transformations we have supported

100+

Recent customers with extraordinary results in...

69

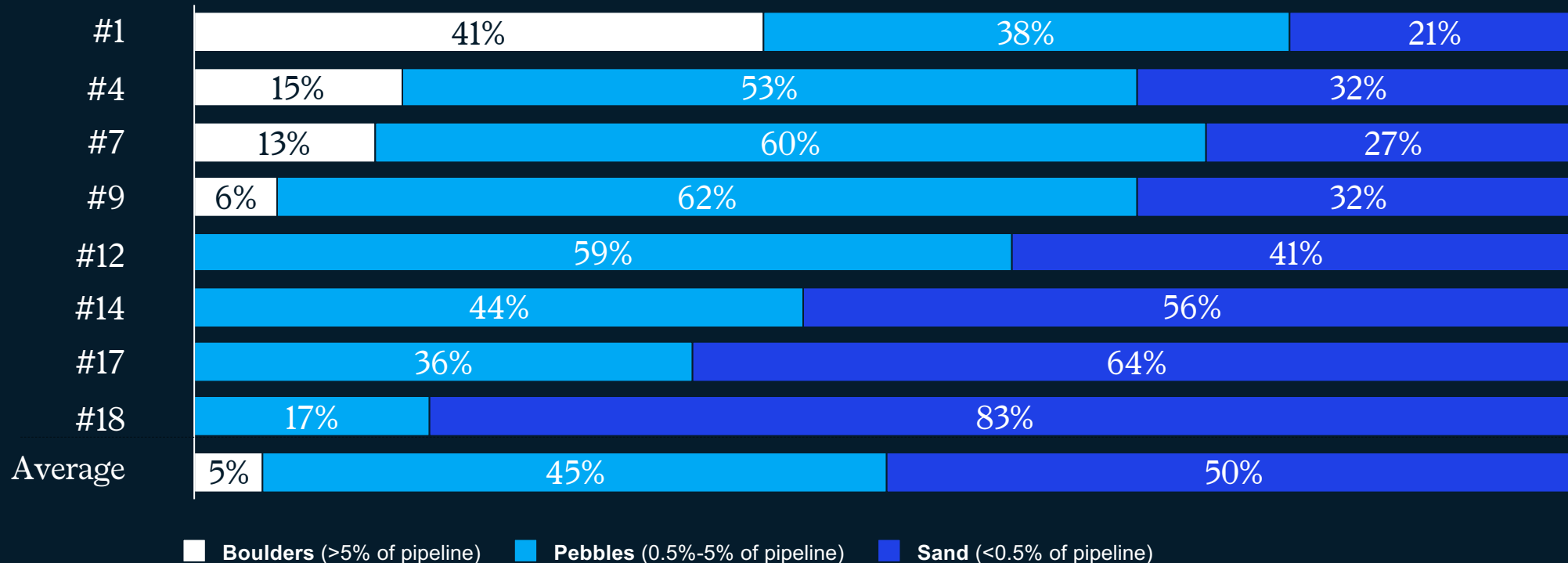
Countries and through...

30+

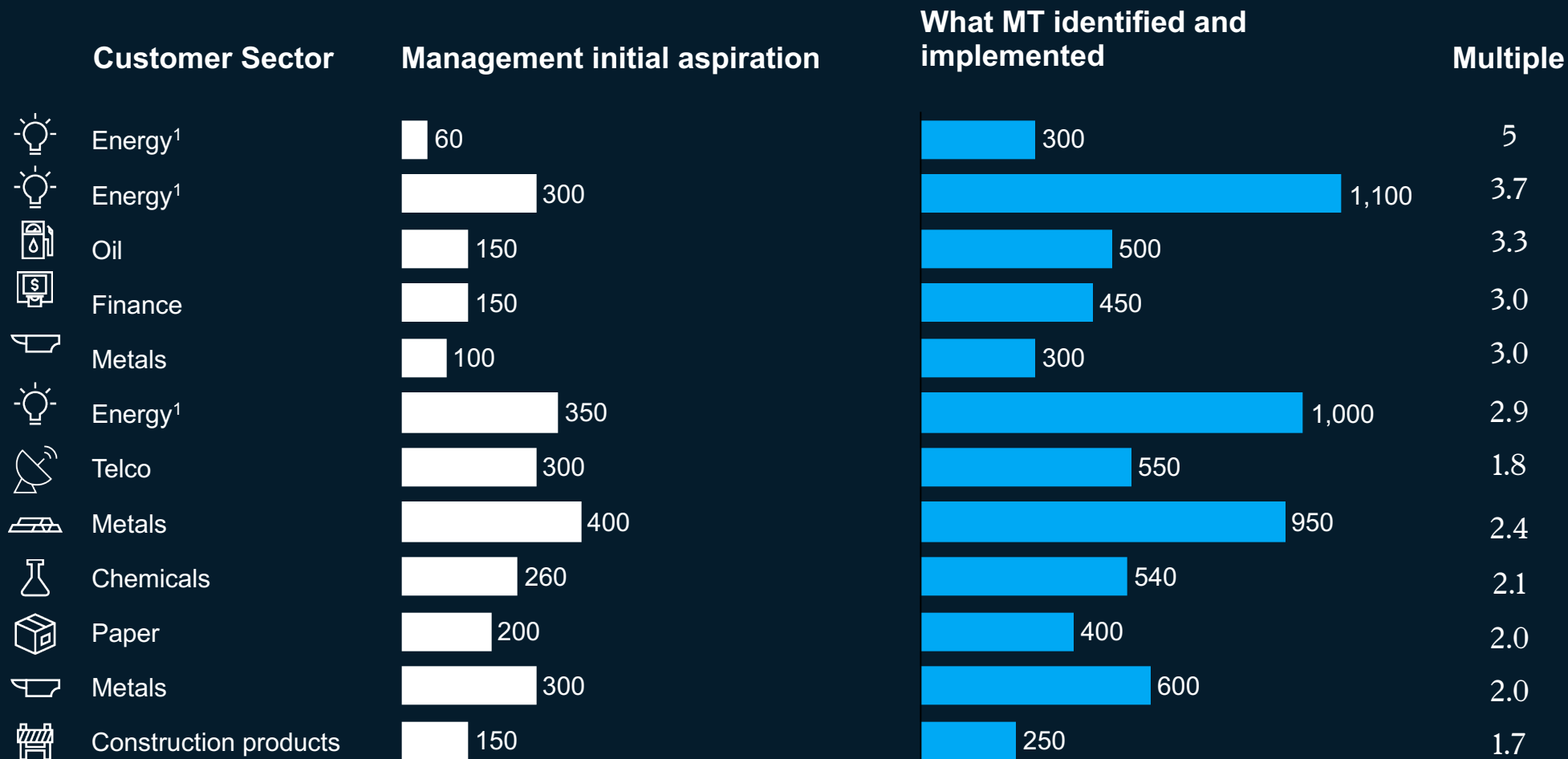
Major Industries

Execution only works when you mobilize the entire organization

Recurring impact by initiative size (boulders, pebbles and sand analysis)
% of total initiatives, selected clients



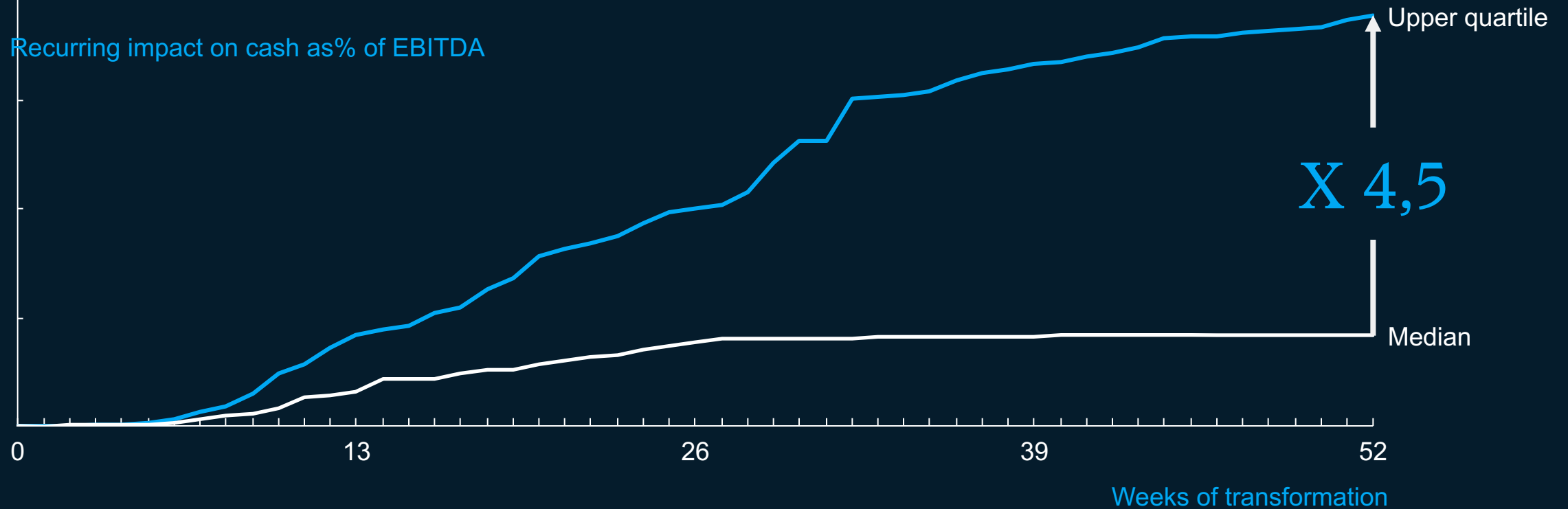
Normally well-executed transformations deliver more value than initial aspirations



Average
2.7

¹ Multiple transformations in energy sector - upstream, midstream and downstream O&G companies

High performing transformations offer 4-5 times more impact on EBITDA than median transformations



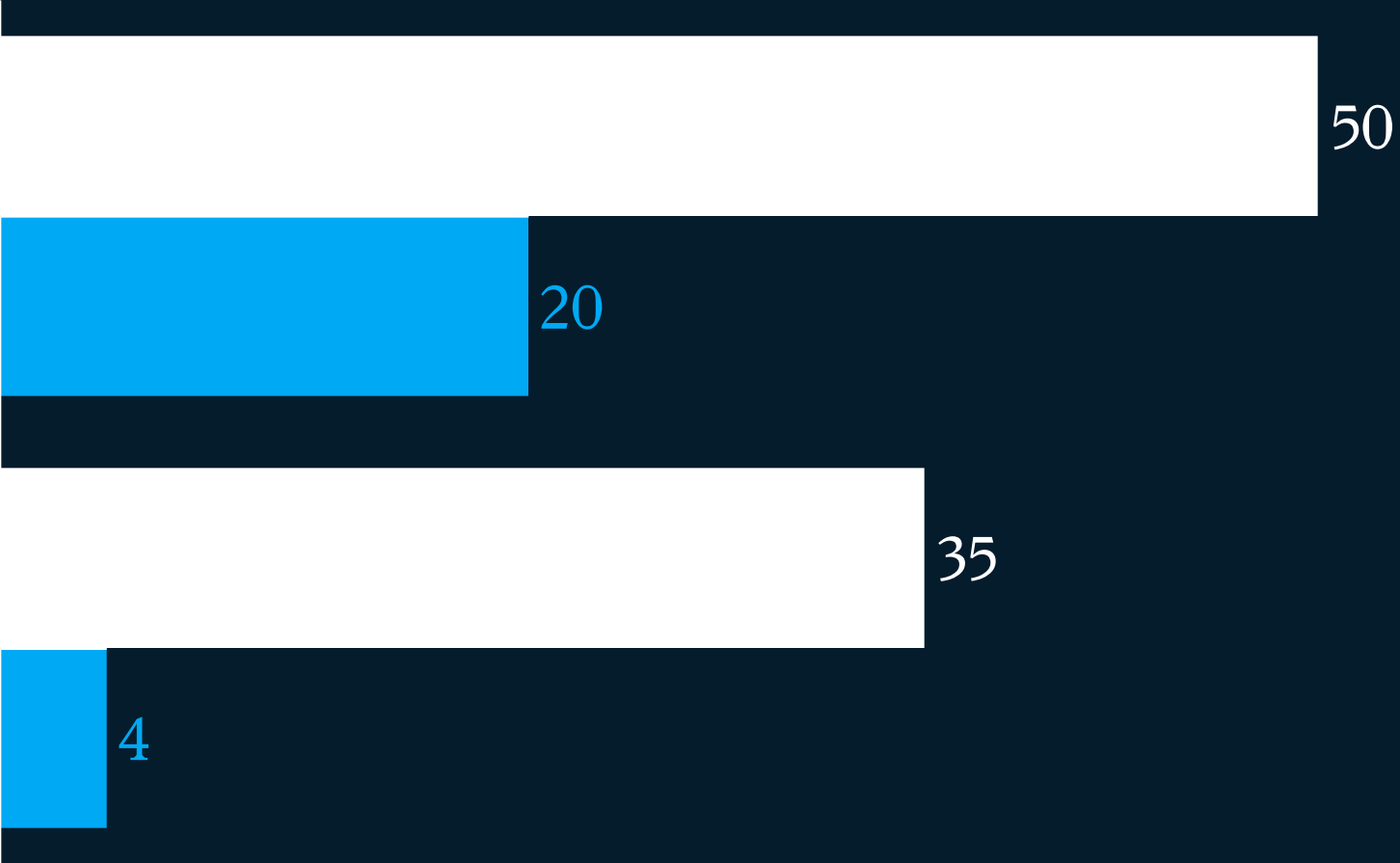
While plans are always optimistic, most successful transformations manage the risks of running late



% of the initiatives implemented late



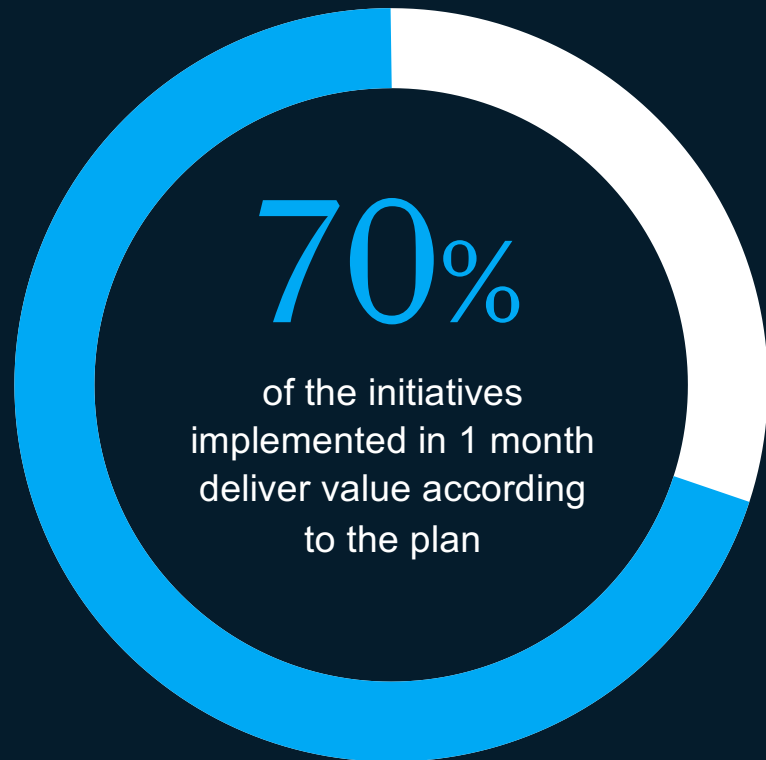
% of value leakage during deployment



■ Average transformation ■ High performance transformation

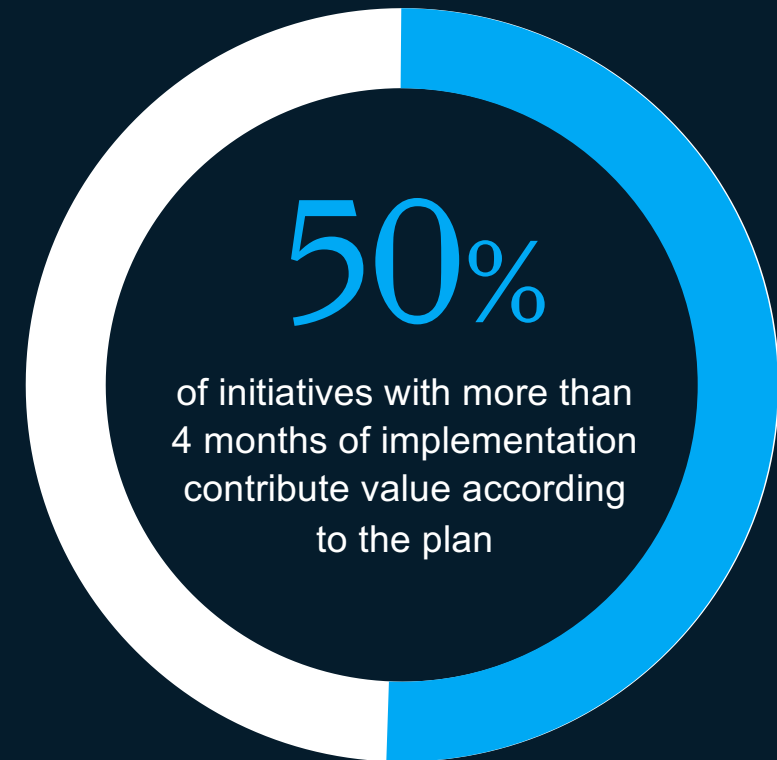
Transformations also require long-term commitments

1 Month

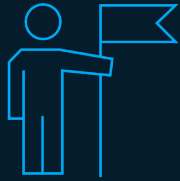


Vs.

4+ Months



Before embarking on a transformation an organization must meet certain requirements



Engaged CEO fully committed to the approach. Huge premium on leadership/decision making



Support of “Corporate” or Board
Commitments to see transformation through



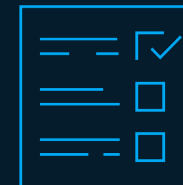
Strong desire to move at pace to reach full potential. Willing to pursue clean sheet approach not just low hanging fruit



Real gap created by underperformance or future headwinds - important for creating “Change story” to engage organization



Courage to make difficult decisions rather than simply talking about what is “untouchable”



Mandate to address all relevant levers in scope. Not just a project but a change in how business is done

McKinsey
& Company

Thank you

June 2019

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company
is strictly prohibited