

# Keeping transformations on target

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Analysis of high-stakes transformations reveals a few pragmatic lessons that increase the odds of meeting the organization's objectives.

Any transformation worth the name starts with ambitious goals. Setting them is hard enough, especially for organizations long used to the risk-averse pattern of underpromising and overdelivering. But the real work starts once the organization sets out to turn the leaders' targets into initiatives that everyone else designs and implements from the bottom up.

Keeping hundreds or thousands of initiatives on track is a monumental task, one that too few organizations around the world do well. Recent research reconfirms earlier findings that only 30 percent of transformations deliver their intended benefits and meet the targets committed to during the program-planning stage.

These odds are simply unacceptable, especially when the stakes are high. We therefore reviewed 18 transformations at 13 organizations that were in the most critical circumstances. While some were facing significant financial and operational challenges, including rapidly deteriorating performance or liquidity concerns, others were simply seeking a substantial step up in their performance.

Our focus was on the practical lessons these organizations learned in making their ambitions real. Our analysis was enabled by McKinsey's proprietary program-management platform, Wave, which generates detailed reports tracking the financial and operational impact of individual initiatives.

Wave's data repository allowed for a comprehensive analysis of the factors contributing to initiative success—ranging from how impact targets were determined, and how quickly initiatives progressed through the various stage-gate reviews, to the structures and timelines of the programs the initiatives supported. We then supplemented our findings with in-depth interviews of executives at representative companies included in the data set.

All the organizations were located in Asia-Pacific; that focus ensured greater consistency in the value-tracking approach and data structure, letting us make more nuanced comparisons. Nevertheless, the organizations varied in industry, size, and program impact. The sectors represented included construction, consumer goods, electric power, mining, natural resources, oil and gas, and retail banking. Annual revenues ranged from \$2 billion<sup>1</sup> to \$28 billion, and total transformation impact ranged from \$450 million to \$4 billion—but we found no direct correlation between the size of the company and the impact of its transformation program.

Our detailed analysis of these materials has allowed us to draw three main insights that can serve as potential guiding principles when structuring a large-scale transformation program:

**Be relentless.** From the beginning, organizations should assume that most initiatives will be worth a lot less than they think. Moreover, most of the companies in our sample fell short of their initial goals and needed an additional round of back-to-the-well idea generation. And, they had to be careful about allocating management time, so that smaller initiatives got their due—they accounted for about half of the program's value, but they could get lost in a focus on only the biggest projects.

**Focus your resources.** Organizations must resist the temptation to spread their most effective leaders too thin. Three initiatives were the typical burden a leader could shoulder at once. Engaging more of the organization as potential initiative owners allows each initiative to get the support it needs without overburdening a few high performers. Reporting must be prioritized as well. Too many milestones in initiative plans can create unnecessary burdens; most programs try to capture too many metrics—and usually fewer than 30 percent end up actually being used.

**Plan and adapt.** Most initiatives were at least somewhat delayed in implementation. But organizations could reduce delays with judicious planning of milestones, supplemented by weekly actions that initiative owners would report on between milestones.

### Follow the pipeline







The transformations we examined all followed a similar pipeline approach for tracking initiatives.

The stage gates of the pipeline begins at level zero, or “L0,” with the collection of as many ideas as possible, regardless of feasibility or size (Exhibit 1). Our analysis then begins at L1, once the initiatives have been identified as worth pursuing. During that stage, initiative owners set out to validate and refine their early value assumptions with

data from other stakeholders and additional analysis. Once a solid business case has been built, the initiative is approved (usually by the finance function) and passes into L2. The initiative owner then defines a robust set of milestones to execute the initiative, and provides a monthly schedule of expected value to be captured on the bottom line, at L3. Many initiatives sit at L3 during implementation, with the initiative only moving to L4 once all milestones to realize value are completed. At that point, the finance function assesses the initiative to ensure that it will deliver value—ideally at the target amount set at L2, but that amount is usually adjusted as the initiative progresses from stage to stage. Finally, once the actual value appears in the business’s cash flows and appears reasonably certain to remain, the initiative passes to the last stage: L5.

## Exhibit 1 Initiatives move through a structured stage-gate process.

### Stage gates for each initiative

		Description	Approval to enter stage
L0	 <b>IDEA</b>	Initial opportunity with rough sense of magnitude	• Initiative owner
L1	 <b>IDENTIFIED</b>	Initiative with preliminary sizing	• Initiative owner • Workstream sponsor
L2	 <b>VALIDATED</b>	Approval of business case	• Workstream sponsor • Finance • Human resources
L3	 <b>PLANNED</b>	Implementation plan with refined business case	• Workstream sponsor • Finance
L4	 <b>EXECUTED</b>	All steps to realize value completed	• Workstream sponsor • Finance
L5	 <b>REALIZED</b>	Value realized in actual cash flows	• Workstream sponsor • Finance

Source: McKinsey analysis

Throughout the process, a transformation office (TO)—typically headed by a chief transformation officer—sets an aggressive pace of weekly reviews to monitor initiatives’ progress against their milestones, record the value they capture, and provide support when initiatives run into trouble. The TO’s independence and role in capturing data allows it to drive action, especially through rigorous problem-solving sessions and questioning of self-imposed limits.

We reviewed each organization’s experience across stages L1 to L5 to find out where problems were most likely to arise and how organizations worked around them.

### Be relentless

The earliest challenge for any organization transforming itself is to find sources of value. That means fighting attrition, conducting back-to-the-well exercises as needed, and allocating leadership attention with care.

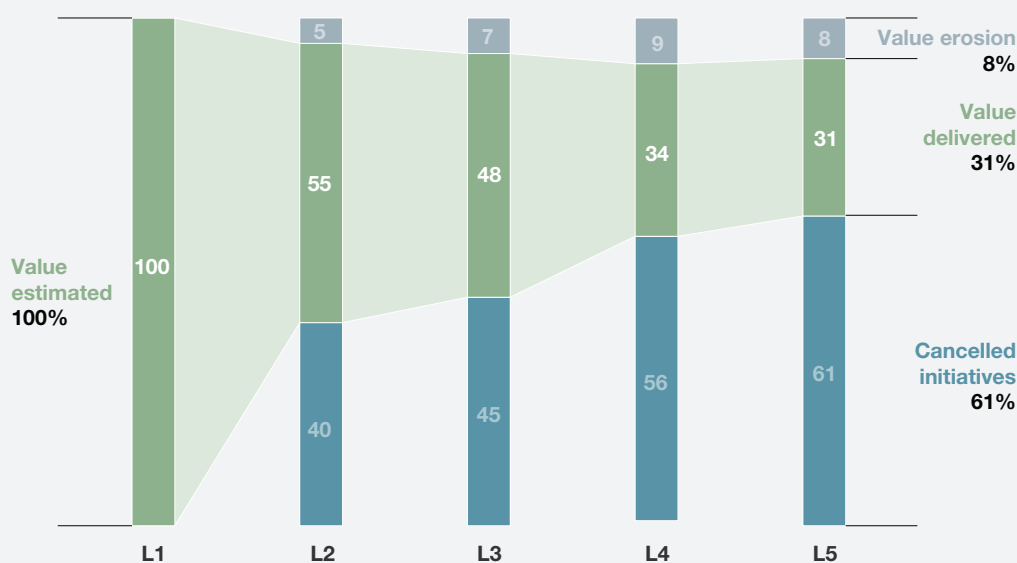
### Fight attrition

The top concern for business and program leaders is for the transformation to meet its impact target. Yet any executive will recognize that most initial impact estimates are optimistic. Pressed to meet program goals that are usually aggressive both in timing and in total value, initiative owners naturally tend to overestimate their initiatives’ worth. But just how optimistic are they? And how much will leaders need to compensate for leakage of impact over the course of the transformation?

Our examination of the data confirms that program managers should expect substantial impact leakage. Just between stages L1 and L2, the initial impact estimate falls by an average of about 45 percent (Exhibit 2). From L2 to L3, the now-smaller impact estimate falls another 13 percent, with further drops of 28 percent between L3 and L4 and 9 percent between L4 and L5. Cumulatively, the result is that L1 estimations usually fall by about 70 percent by the time they

**Exhibit 2** Initial impact estimates are invariably optimistic, and our data confirm how little impact survives to realization.

Expected impact leakage by level,<sup>1</sup> %



<sup>1</sup> Figures may not sum to 100%, because of rounding.

Source: Analysis of data provided by Wave (a McKinsey Solution)



reach L5. Organizations will therefore need a pipeline with a total value that's more than three times the initial target.

#### Find a productive spring—and return to the well later

Part of the solution is simply to generate more ideas early in the process. At this stage, time may not allow for canvassing all employees, but program managers can nevertheless hold broad, disciplined ideation workshops with frontline team leaders and representatives. By setting out rules that encourage full participation, openness to all ideas (even the most “unrealistic”), and creativity, organizations can quickly generate valuable insights from the people whose day-to-day work gives them a unique perspective on real opportunities to improve the business.

In practice, though, even these preparations may not be enough, as demonstrated by a consumer-products manufacturer and an energy company. In each case, with less than three months remaining before publicly announced deadlines, teams were running well short of their targets—by tens of millions of dollars at the energy company and hundreds of millions at the consumer player. But both companies found that going back to the well and asking their people for more ideas allowed them to make up the difference. Each made its target, which provided an essential morale boost that made further improvement possible after the target was met.

Finding these later opportunities requires more effort than the first round of idea generation and typically produces somewhat less in total returns. Our data analysis found that by the second month, about two-thirds of a program's value had already been discovered, leaving less to find in later efforts. Still, additional pockets of potential almost always remain. One option that several organizations used took advantage of data from the program-management tool to review how much actual value each initiative was generating. Conducting a root-cause analysis on those that were cancelled, delayed, or that underdelivered helped uncover important lessons that led to new value.

#### Impact: Big slope versus long tail

By opening up idea submission to a much larger cross section of the organization, back-to-the-well exercises illustrate a related lesson as well: that the long tail of smaller initiatives matter. At one mining company, for example, a mechanic came up with an idea that reduced maintenance time for each truck by more than 30 minutes. Once applied to the regular monthly service schedule across the entire fleet, this idea added several thousand truck working hours per year and was worth millions of dollars.

Some of the organizations we reviewed expanded the idea-capture process to vendors and business partners as well. And these small initiatives add up to big impact. We divided initiatives into three groups. The first, “boulders,” consisted of initiatives that each represented at least 5.0 percent of the total program's value. “Pebbles” were those representing between 0.5 and 5.0 percent of total value, and everything smaller than 0.5 percent was “sand.”

Our data indicate that on average, 50 percent of the total program value typically comes from sand (Exhibit 3). That means focusing only on the boulders, the biggest (and often highest-profile) initiatives is risky. Moreover, sand initiatives are often easier and quicker to execute: their small size involves fewer layers of approval and less coordination. And they are often led by frontline analysts and managers, giving them more of a stake in the transformation's success.

#### Focus your resources

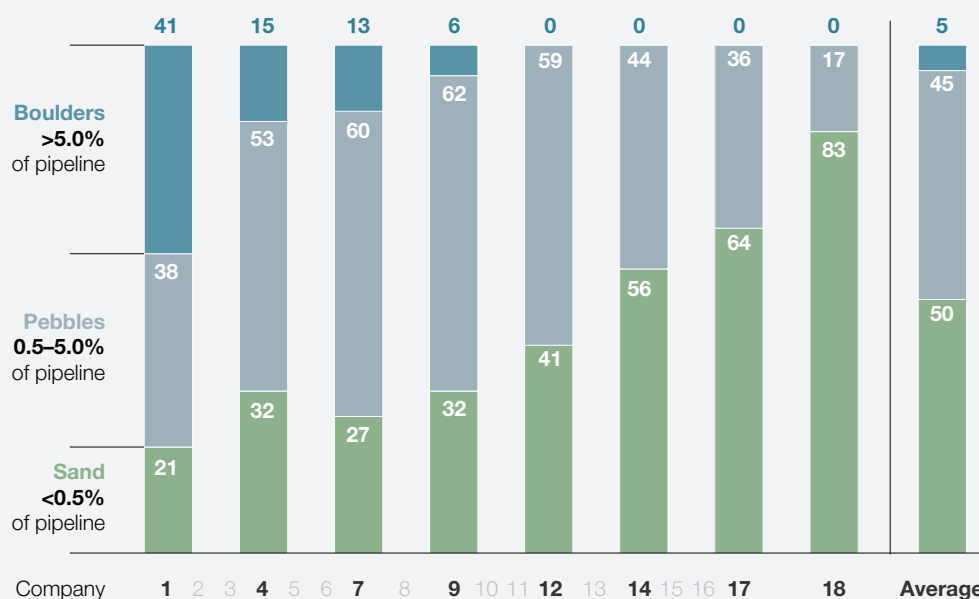
With time of the essence, executives overseeing transformations must be especially careful in allocating time and effort at every level of the organization. The basic reality is that every moment an initiative owner spends on work that isn't productive is a moment taken away from helping generate more impact.

#### Make it easier on initiative owners

How much is reasonable to ask of initiative owners? For comparison among transformations, we defined “initiative owner” as “the most senior

### Exhibit 3 Focusing only on ‘boulders’ can be risky, while ‘pebbles’ and ‘sand’ can add up to big impact.

Recurring impact on selected companies by initiative size, % share



Source: Analysis of data provided by Wave (a McKinsey Solution)

person who actually does the day-to-day work.” On average, we found that initiative owners manage three initiatives each. As one leader working with a consumer-products company explained, “It’s a rare exception for an owner to successfully manage more than three initiatives. They have to be really

good at delegating the underlying milestones to others and following up on their progress.”

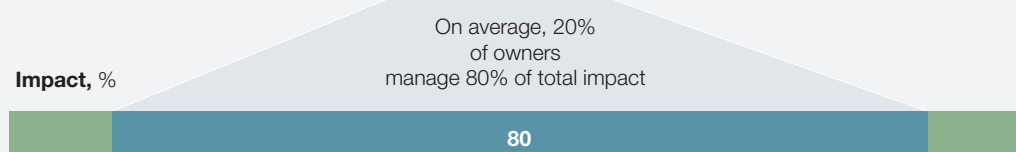
Our evidence shows that about 80 percent of total impact is managed by 20 percent of initiative owners (Exhibit 4). That’s often

### Exhibit 4 Heavy reliance on a few initiative owners could create burnout risk.

Ownership, %



Impact, %



Source: Analysis of data provided by Wave (a McKinsey Solution)

because ownership of big-value initiatives (such as major contract renegotiations) is concentrated in the hands of a few very senior or high-potential individuals.

But it comes at a cost: the potential for burnout. One of our interviewees said that his organization lost several leaders because they simply couldn't keep up with the demands of overseeing too many initiatives at once.

By contrast, small-value initiatives are often more limited in scope and are owned by frontline analysts and managers who don't have the time or capacity for a larger set of initiatives. The involvement of a larger number of people not only relieves the owners of higher-profile initiatives but also helps build momentum and buy-in for the program as a whole. These considerations typically outweigh the disadvantage of the added complexity of having to manage a high number of owners.

#### Keep reporting manageable

But complexity can quickly rear its head in the reporting of initiatives' status. The ideal initiative execution plan contains all the milestones necessary to carry out the initiative, while avoiding so much detail that the milestones become distracting to initiative owners at negligible additional value.

Either extreme creates problems. For the consumer-goods company, "high plan granularity came with a lot of pushback from initiative owners, who felt micromanaged and worried about the time required to update or create milestones," one executive told us. On the other hand, milestones spaced too far apart in time reduced the program leaders' ability to identify delayed or at-risk deliverables until it was too late for effective course corrections. One leader noted, for example, that several of his

company's execution plans ended up in avoidable delays when the milestones that initiative owners scheduled failed to align with important stakeholder approvals, such as for compliance reviews or proxy votes.

Our data show that an average of four milestones was typically the right balance—enough to provide early warning about potential problems, but not so many as to get in the way of implementation.

#### Make metrics meaningful

The decisions on which metrics to track are typically made during the planning phase of the program, as leaders decide what is in and out of scope, what types of spending should be targeted for savings, and so on. Most commonly, financial metrics are used for transformation programs because of their strategic importance, the availability of the required data, and the ease of tracking them compared with nonfinancial metrics.

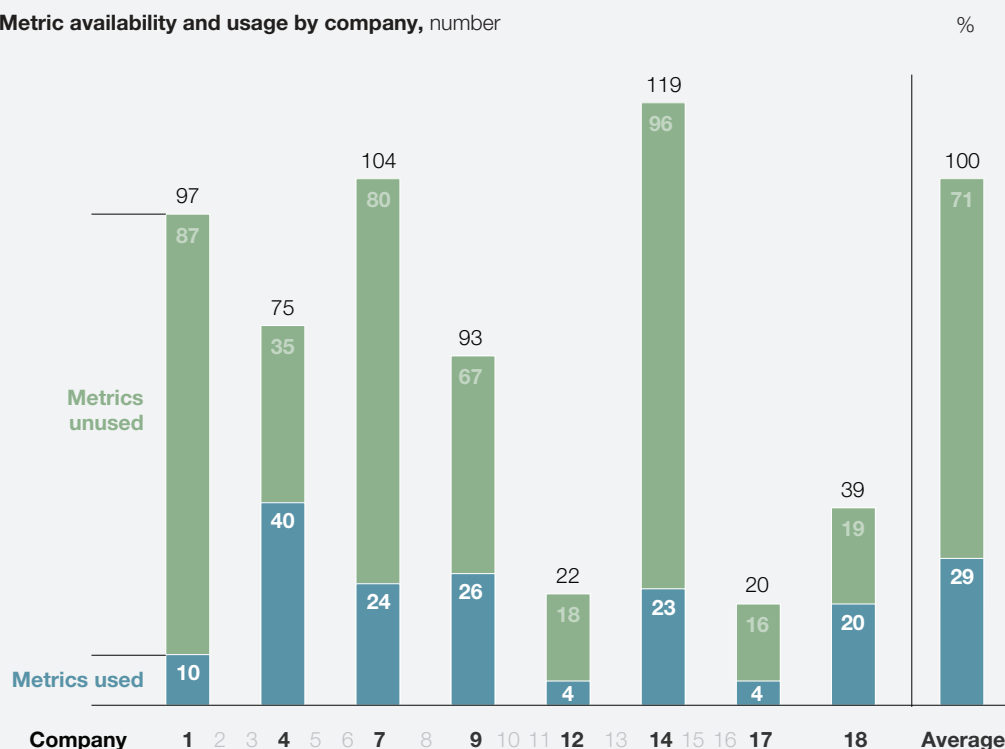
But even a relatively straightforward set of metrics can quickly become complicated if additional layers are added. A finance department may ask for the metrics to mirror individual accounting line items, slicing and dicing the data into dozens of submetrics. Adding further permutations, such as distinguishing between recurring and one-time impact or between hard savings and cost avoidance, compounds the complexity for initiative owners. And that's before measuring and tracking nonfinancial metrics, such as head-count redeployment for different personnel types.

Evidence from our data shows that only 29 percent of the metrics organizations claim to follow are actively used during the length of the project (Exhibit 5). The rest become statistical noise and a source of confusion for initiative owners trying to decide where to allocate the savings from their initiatives.

## Exhibit 5

# Only 29 percent of metrics are actually used actively during the length of the program—the rest are just noise and confusion.

Metric availability and usage by company, number



Source: Analysis of data provided by Wave (a McKinsey Solution)

Accordingly, organizations must strike a balance between ensuring the finance function can report at an acceptable level of detail while also enabling initiative owners to allocate impact easily. A rule of thumb that several organizations used successfully was to eliminate any metric that was likely to carry less than 0.01 percent of total program impact and fold it into other metrics instead.

## Plan and adapt

Once the program is under way, the organization will need to adapt quickly and nimbly to inevitable unforeseen obstacles. Careful planning and well-structured review cycles helped the executives we interviewed intervene where needed to keep initiatives—and whole programs—on track.

## Plan for delays

Much as the initial value estimate of an initiative tends to be optimistic, so too is the promised timing. Our data show that on average, approximately 31 percent of initiatives will have their execution end date (the date at which stage L3 ends) changed at least once throughout their life cycle. About 28 percent will see it happen twice, and 19 percent three times.

The impact of date changes can be mitigated if they are made early in an initiative's life cycle, with sound reasoning and the approval of the TO. However, our data show that despite the high frequency of due-date changes, 56 percent of initiatives still miss their planned L3 date (the date at which the plan is approved) by more



than a week, and about half miss their L4 date (the date at which execution is complete) by more than a week. On average, initiatives start L3 two-and-a-half weeks later than planned, and they are fully executed approximately four weeks after the set deadline (Exhibit 6).

What can organizations do? The amount of time that initiatives spend in the implementation stage will inevitably depend on a range of factors, including the overall agility of the company, the urgency of the transformation program, and the level of approval required to move an initiative from one stage gate to the next. But ultimately, helping owners meet their deadlines is the role of the TO, whose discipline is essential in ensuring performance. A chief transformation officer who comes from outside the organization can often be in a better position to break through cultural norms and other constraints that can impede an initiative's progress.

### Commit to weekly actions

Even when delays are unavoidable, initiative owners can reduce the impact by ensuring that each initiative moves forward every week, regardless of whether there's a milestone or not. By asking for brief updates on these actions during the regular cadence of meetings and offering support, leaders can encourage owners to report on potential issues early so that they can be solved with minimal effort.

As a rule of thumb, leaders should expect 80 percent of the initiatives across a program to be updated with specific actions every week. While that may seem high, we have found that with five minutes of planning, almost every initiative can be improved or accelerated each and every week.



For high-stakes transformations, this analysis underscores the importance of balancing

Exhibit 6

**On average, L3 initiatives start 17 days later than planned and are fully executed approximately four weeks after the set deadline.**

Timeline L3 start to L3 end, days



Source: Analysis of data provided by Wave (a McKinsey Solution)

high aspirations against a pragmatic understanding of what individuals and organizations can achieve. By keeping a few basic constraints in mind, transformation leaders can mitigate some of the inevitable problems that arise when people are trying to achieve dramatic performance improvement in a very short time. By minimizing avoidable waste in the transformation process itself, the organization is much more likely to meet (or even exceed) its goals—and build a foundation for it to keep improving once the program is complete. ■

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<sup>1</sup> All amounts in US dollars, converted as of the study's conclusion in May 2016.

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