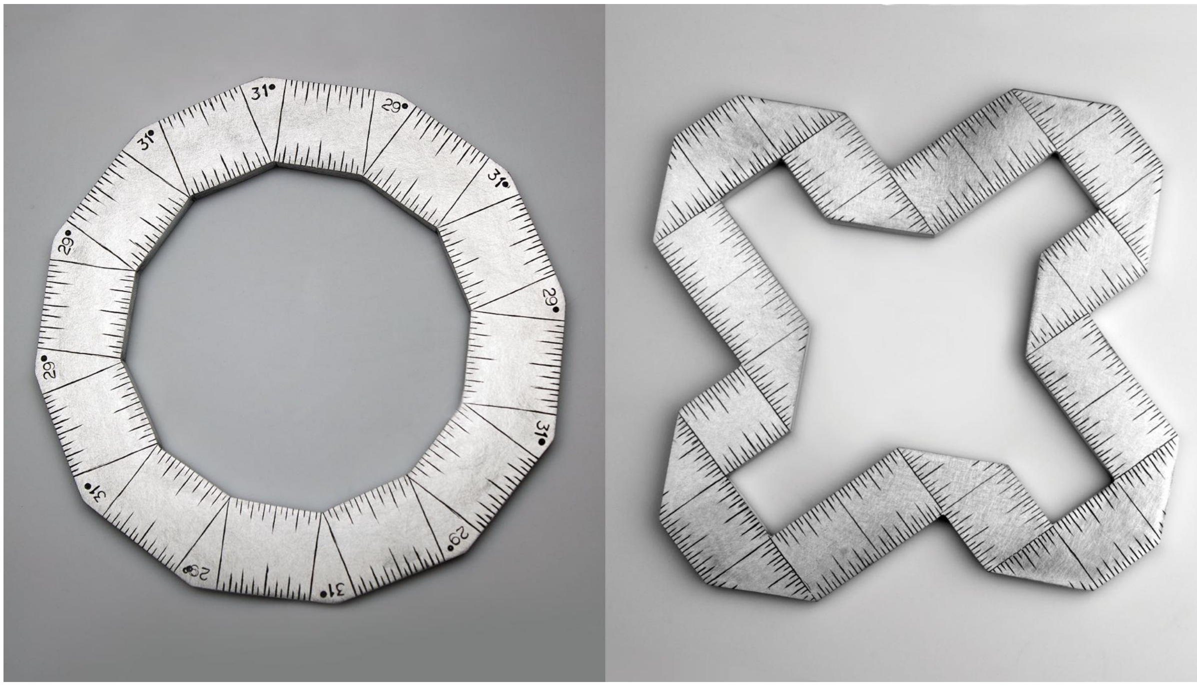
Organizational Transformation

Transformations That Work

by Michael Mankins and Patrick Litre

From the Magazine (May–June 2024)



Rick Salafia

Summary. More than a third of large organizations have some type of transformation program underway at any given time, and many launch one major change initiative after another. Though they kick off with a lot of fanfare, most of these efforts fail to deliver. Only… **more**

OPERATIONAL TRANSFORMATION

Nearly every major corporation has embarked on some sort of transformation in recent years. By our estimates, at any given time more than a third of large organizations have a transformation program underway. When asked, roughly 50% of CEOs we've interviewed report that their company has undertaken two or more major change efforts within the past five years, with nearly 20% reporting three or more.

Unfortunately, most transformation programs aren't all that transformative. Though they typically start with great fanfare—complete with big announcements and proclamations of wholesale change—most fail to deliver. Our research indicates that only 12% of major change programs produce lasting results. Too often, leadership accepts disappointing outcomes and moves on, only to launch another program in a few years' time. One prominent U.S. bank, for example, has initiated three substantial restructuring programs in the span of just four years, yet all of them have fallen flat.

It doesn't have to be this way. Over the past two decades we've worked with dozens of companies that have effectively transformed their businesses and studied hundreds of others that have attempted to. Our analysis has revealed six important differences between the programs that worked and those that didn't. In this article we'll explain why so many ambitious change initiatives come up short and outline the steps that leading companies are taking to defy the odds and realize the full promise of transformation.

Underwhelming Results

In late 2023, Bain & Company completed the second of two comprehensive surveys of 300 large companies worldwide that had attempted transformations. The first survey had taken place a decade earlier. The participating companies included both Bain clients and nonclients. The findings highlighted two concerning trends.

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Less failure, but not more success. In the 1990s John Kotter and other scholars identified the most common reasons for ineffective transformation attempts—notably, a lack of urgency, insufficient leadership, limited vision, poor communication, and a shortage of “quick wins.” Many companies have taken steps to avoid those pitfalls, often seeking outside advisory support. As a result, companies are experiencing fewer outright failures in their transformation endeavors. If we define “failure” as achieving less than half of what leadership aimed for, then only 13% of recent transformation programs can be labeled as such. That's a significant improvement from the 38% rate observed in 2013 and can be attributed to lessons learned over the years.

But there's a catch. Despite the decline in outright failures, success rates have not risen. If "success" is defined as meeting or exceeding leadership's expectations, then only one in eight transformations can be considered successful—and that rate has remained constant since 2013.

An acceptance of mediocrity. The percentage of transformation programs with so-so outcomes—that is, those that achieved more than 50% but less than 100% of their targets—increased from 50% in 2013 to 75% in 2023. Instead of pushing their organizations to deliver more, many senior leaders seem to settle for improved but still unexceptional performance. While that reaction is understandable, it often signals to employees that if they wait long enough, the status quo will be restored. Worse, it breeds cynicism that undermines the success of future change efforts.

Six Critical Practices

Clearly, the prevailing approach to transformation in most companies is not yielding the desired results. It's time for a new model—one incorporating six practices that our research has shown are key to successful programs.

1. Treating transformation as a continuous process. Most transformation efforts are structured as discrete programs—with a clear beginning and end. Top management sets an ambitious goal, defines a series of initiatives designed to meet it, assigns leaders to manage the change, and then monitors performance until the program is complete. It's an approach inspired by the work of the psychologist Kurt Lewin, who believed that the process of change entails (1) creating the perception that a change is needed, (2) moving toward the new desired behavior, and (3) solidifying that new behavior as the norm. This became widely known as the “unfreeze-change-refreeze” model.

Although that model may have made sense when most business transformations were transitory—that is, a temporary deviation from “normal”—or if the change involved managing the implementation of, say, a new enterprise resource planning system, it’s not well suited to deliver major change in today’s highly dynamic environment. Most companies are (or should be) in a state of constant transformation. It’s simply no longer possible to refreeze and step aside. The most successful efforts recognize that transformation must be continuous and orchestrate their programs accordingly.

Dell Technologies is a case in point. When Michael Dell took the company private, in 2013, he knew he wanted to transform the PC maker into a broad-based leader in infrastructure technology. He also recognized that to do so he needed his team to keep stretching to drive the next level of performance.

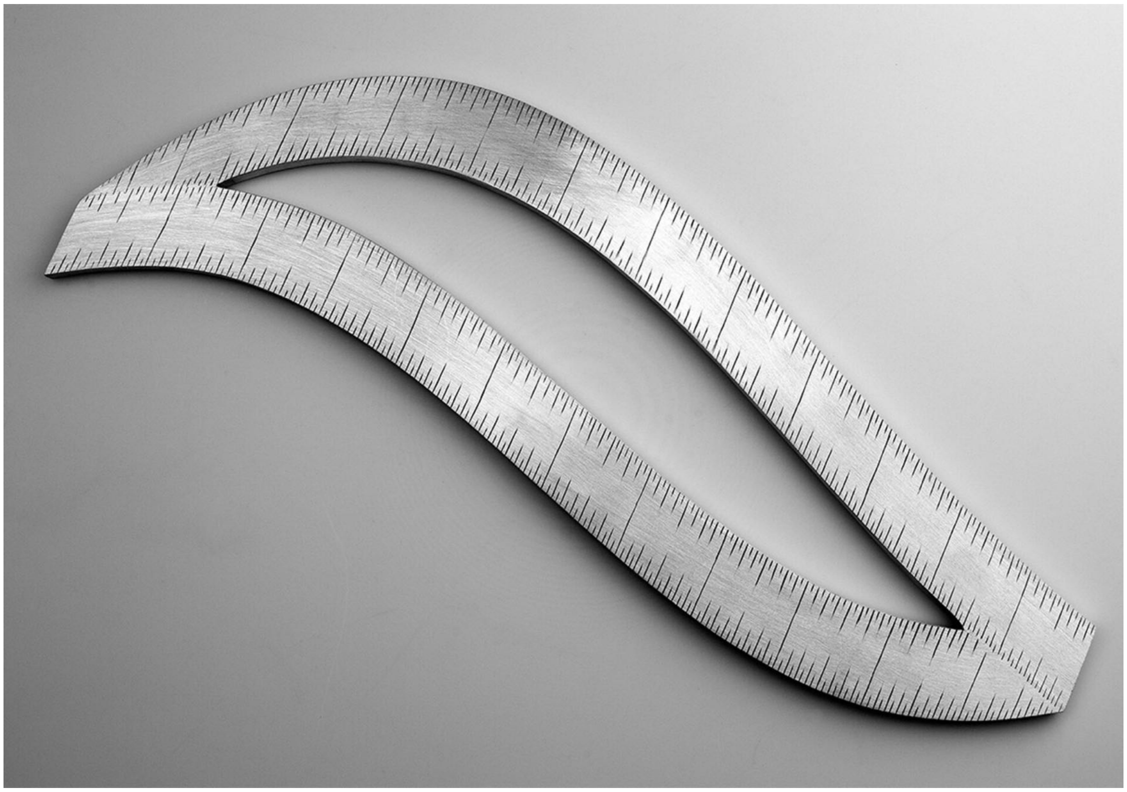
Starting in 2014, Dell’s executive leadership meetings centered on what was referred to as the Dell Agenda. This agenda amounted to a backlog of the most critical issues the company was confronting at the time and, by implication, the most important changes Dell had to make to transform successfully. Some issues, such as the need to simplify Dell’s product portfolio and transition from a made-to-order to a made-to-stock approach, pertained to day-to-day operations. Others, like defining a new go-to-market structure for the company’s direct sales force, were organizational in nature. Finally, many, such as determining how to strengthen the company's position in the rapidly growing, high-margin storage segment, involved strategic opportunities.

What made the Dell Agenda particularly noteworthy was its evergreen nature. When an issue was successfully resolved, it was removed, and a new issue took its place. This ongoing process of addressing operational, organizational, and strategic issues produced extraordinary results. From 2014 to 2023, Dell Technologies experienced a dramatic increase in market value, achieving more than 10-fold growth. The surge in value was a testament to the company's newly established leadership positions in areas such as commercial PCs, servers, storage solutions, and other critical infrastructure technologies.

2. Building transformation into the company's operating rhythm. Too often transformations are viewed as separate from company operations and handled by a distinct program-management office. In most instances, however, working on both should be considered part of every manager's day job.

Consider the approach Alan Mulally took to successfully lead the transformation of Ford Motor Company from 2006 to 2014. Shortly after taking the helm, he introduced a rigorous business plan review (BPR) process, which involved weekly meetings with the entire senior leadership team. The BPR played a pivotal role in aligning the team around a compelling vision and a comprehensive strategy known as One Ford.

The BPR ingrained the implementation of One Ford into the company's operating rhythm. As Mulally noted, "Everyone knew the plan, the status against that plan, and all the areas that needed special attention. Everyone was working together to change the reds to yellows and greens.”



Rick Salafia creates fantastical and nonsensical measuring instruments out of aluminum alloy to explore how we quantify and conceive of the unmeasurable.

Under One Ford the company divested itself of Aston Martin, Jaguar, Land Rover, and Volvo. It terminated its passenger-vehicle joint venture with Mazda and discontinued the Mercury brand. Ford also streamlined its vehicle platforms and standardized components across its models, which resulted in significant cost savings and improved product quality. The proceeds from asset sales and the savings from restructuring, along with external financing, were channeled into creating a “balanced business” of cars, trucks, and SUVs. The company revitalized its iconic brands, including the Ford F-150 pickup and the Mustang, transforming itself from a near-bankrupt relic into an industry leader.

During Mulally’s tenure, Ford rebounded from a $12.7 billion loss to a $6.3 billion pretax profit. Though its stock price fell during the global financial crisis, it shot up 800% from its low point, and when Mulally left it was nearly double what it had been when he started.

3. Explicitly managing organizational energy. Transformations fizzle when they consume more energy than they generate. That's why their tendency to continually disrupt the work routines of the same group of individuals is problematic. Over time that group may start to ignore further requests for change or even actively resist them. Our research shows that if an organization tries to change more than two primary routines simultaneously, the odds of failure increase dramatically. For example, consider a scenario in which a company's sales force is asked to sell in newly defined territories while also promoting an expanded portfolio of products and services. In such a situation it's highly likely that sales productivity will drop. Still, despite its importance, organizational energy is rarely managed effectively during transformations.

In successful programs leaders explicitly identify the employees and functions that will be most impacted by each aspect of the initiative and ensure that no group is expected to alter multiple routines at once. Changes are carefully sequenced to limit disruption and prevent widespread organizational fatigue. Success is recognized and rewarded along the way to build energy and enthusiasm for the effort.

Take the transformation of Virgin Australia. In April 2020, just a few months into the Covid-19 pandemic, the company entered voluntary administration as a bankrupt carrier. That September, Virgin was acquired by the U.S. private equity firm Bain Capital (an entity entirely separate from our firm), and by the end of November, Jayne Hrdlicka had been appointed CEO. Under her leadership the company reorganized itself as a much leaner, midmarket carrier. Once it had turned the corner it expanded its fleet by 60%, hired thousands of new employees, opened many new routes, and completely reimagined its customers' experience. Such massive changes could have caused debilitating disruptions had leadership not been meticulous about managing organizational energy.

At the start of the process, every aspect of Virgin Australia's overhaul was carefully sequenced. The airline made significant investments in new planes and technology, restructured its head office, revamped its marketing and sales function, bolstered its procurement team's capabilities, and introduced new customer-service innovations. Virgin's leadership assessed how each change would affect employees and consciously scheduled the hundreds of initiatives involved to avoid overburdening any one part of the organization at any one time. Unnecessary or lower-priority efforts were put on hold, either temporarily or permanently, freeing up organizational bandwidth. Leadership applied a simple rule of thumb: Prioritize the changes that were most crucial to passengers and deemphasize or eliminate those that weren't. The strategic staging and focus allowed Virgin Australia to move quickly without exhausting its people.

In our study nearly all failed transformations were underfunded. Many leaders tried to finance them through cost-cutting measures. That strategy typically fell short.

Hrdlicka and her team also actively engaged the organization throughout the transformation, tapping into Virgin Australia's unique "Virgin Flair" culture. They encouraged employees to contribute new ideas for making Virgin "the most-loved airline in Australia." Great ideas were celebrated, and the inclusive approach injected passion and energy into the team's work, significantly accelerating the pace of change. Frontline staff and executives shared in the success of the transformation, receiving bonuses and other financial rewards in recognition of their contributions to the turnaround.

4. Using aspirations, not just targets, to stretch management's thinking. In typical transformation efforts, especially turnarounds and restructurings, the initial step involves examining external benchmarks. These are then used to set top-down targets for cost and head count reductions, and the organization is tasked with figuring out how to meet them. While that approach may appear rigorous and data-driven, it seldom sparks transformative thinking. Relying on benchmarks tends to confine "the art of the possible" to what others have already achieved, effectively setting the bar too low.

True transformation calls for breakthrough thinking and pushing beyond current practices, often with the help of new technology. Consider Adobe, the $18 billion developer of software for creative services professionals. In 2011, when it declared its intent to shift its entire product line to the cloud, the strategy was deemed unusually ambitious, if not revolutionary. There were few benchmarks that Adobe could refer to—only the aspiration of fundamentally reshaping the company's business model.

Shantanu Narayen, Adobe's CEO, challenged his management team to reinvent the company. Historically, Adobe's formula of selling software like Photoshop to creative professionals at attractive prices had been highly successful. However, Narayen recognized that clinging to the past would not be a winning business strategy. Drawing on his extensive knowledge of the industry and the company, he set the goal of transitioning 100% of Adobe's products to a web-based subscription model. The company would be among the first to adopt the software-as-a-service (SaaS) approach.

This bold ambition unified and motivated everyone at Adobe. Every facet of the business had to grapple with the question, How do we need to do this differently? Transitioning to the cloud significantly affected the company's product development, operations, and go-to-market strategies. For instance, Adobe had traditionally introduced new features whenever a new software version was released, typically every 18 to 24 months. But in the cloud, products could be continuously updated, tested, and released, necessitating a more agile and scrum-based approach to product development.

In addition, Adobe had to invest in cloud-based components that would facilitate seamless downloads of products because customers still needed to have many applications on their desktops. And the way that Adobe engaged with its customers had to change. Its value proposition was reorganized around delivering high-quality service, not merely introducing new features. Aspects of it like uptime, availability, disaster recovery, and security all became pivotal. Much closer collaboration among the functional groups contributing to the overall customer experience, including product management, engineering, marketing, and IT—which all had previously operated separately—was also required.

Adobe continues to transform itself, lately by harnessing breakthroughs in generative AI. In 2023 alone the company introduced 100 new features and updates for its software, including many advanced AI-powered tools. It has expanded Firefly, its AI product line, with three new image generators. Beyond the "wow factor," the wide range and high quality of these innovations have firmly established Adobe as the leading maker of creative tools for professionals.

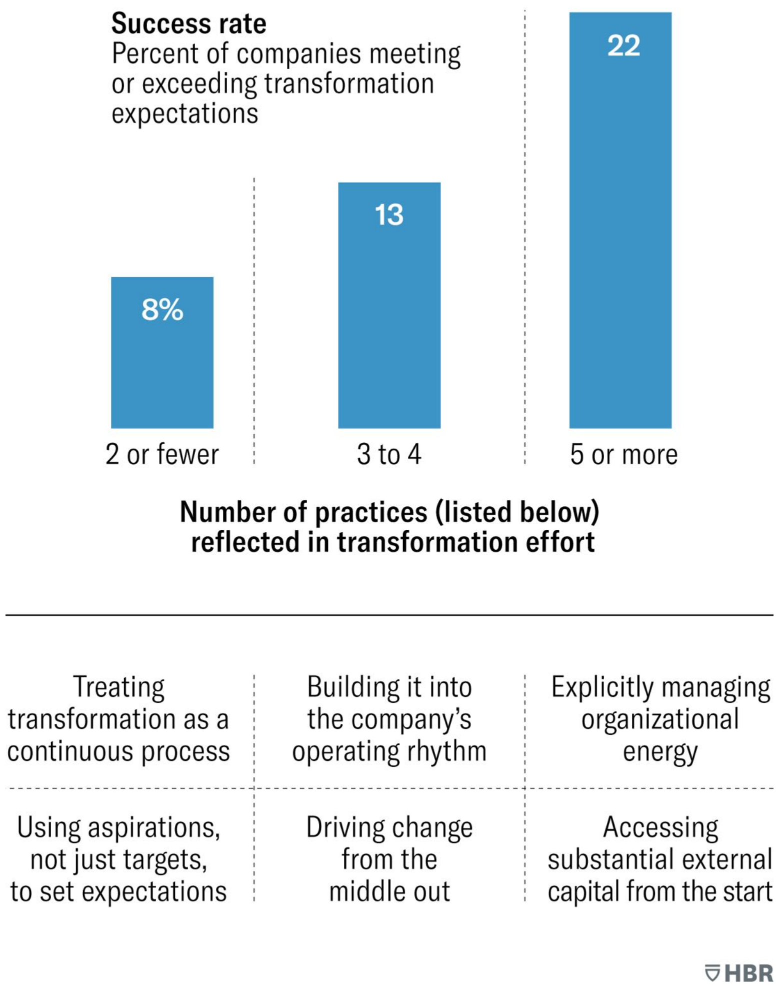
The results have been truly impressive. Since Narayen became the CEO, Adobe's market value has shot to more than $250 billion from just $24 billion—and the company's average annual total shareholder return has been more than 15%. This compares very favorably with the tech-heavy Nasdaq's TSR of just under 9% in the same period. What's more, Adobe's transformation has reshaped the entire software landscape. Nowadays nearly every software company, ranging from Autodesk to Microsoft, has followed Adobe's pioneering lead.

5. Driving change from the middle out. Most transformation programs are top-down: Upper management sets targets and relies on lower organizational levels to figure out how to meet them. Initiatives are then typically executed from the bottom up. While this approach can yield effective ways to cut waste, it rarely produces lasting results. Why? Because enduring improvement requires changes in both the work being done and how it is accomplished. Cross-company intelligence and deep experience are needed to identify those changes, and that calls for a "middle-out" approach.

Senior executives frequently are too far removed from day-to-day operations to understand what truly needs to change. Consequently, top-down solutions tend to be superficial or at least short-lived. Frontline managers, meanwhile, often lack the contextual understanding to challenge existing processes, and so trim around the edges rather than propose major changes. But midlevel executives tend to have enough experience to see the shortcomings in current operations—and aren't so close to the ground that they get lost in the weeds.

Good Practices Lead to Better Outcomes

Across Bain & Company's 2023 sample of transformations, efforts that incorporated at least three of six key practices reported higher rates of success than efforts that incorporated two or fewer. The success rate of efforts that incorporated at least five practices was even higher.



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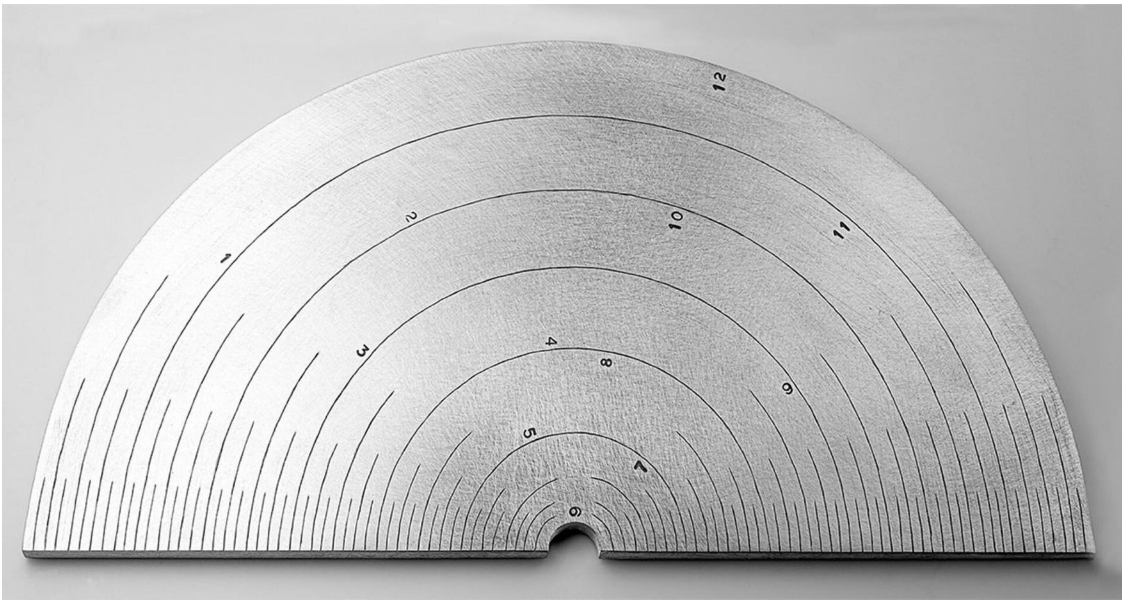
Amgen, the $27 billion global biopharma company, is a case in point. In 2013 its CEO, Bob Bradway, and his team set out to reshape the company, which was more than 30 years old and grappling with the expiration of the patents on several of its most successful drugs. The goal was to reposition Amgen as an agile, patient-centered powerhouse capable of developing groundbreaking drugs quickly.

For each transformation initiative, Bradway and his team selected two midlevel leaders—a VP-level “initiative lead” and a director-level “initiative liaison.” These leaders were to make the transformation effort their primary focus. Their selection was rigorous: A “draft,” coordinated by the chief transformation officer and the chief human resources officer, was conducted by the CEO and all his direct reports. Eligible executives had to be among the highest rated at Amgen, with proven ability to tackle the most-pressing challenges.

Once the initiative leads and liaisons were in place, teams with the necessary capabilities and expertise were assembled. Leadership emphasized the importance of assigning the best talent to each transformation initiative. This ensured that the teams had the skills to drive meaningful change quickly. Soon the transformation process became a vehicle for testing and developing the next generation of leadership within the company. Many of the initiative leads and liaisons have since moved into senior roles at Amgen.



Rick Salafia

The middle-out approach surfaced better solutions at Amgen. The team overhauling the company’s critical process-development capability offers a great example. Its breakthroughs included such fundamental changes as the consolidation of 17 functions into seven, the closure of five sites, the integration of 25 disparate systems into one new platform, and the implementation of three new cycle-time-reduction processes across the company. Its efforts were a significant departure from previous transformation initiatives at Amgen, which had typically led to modest changes to established practices and processes.

The results have been impressive. From 2013 to 2022 the company doubled the number of approved medicines in its portfolio—from 13 to 27. Many more of its drugs are blockbusters. In 2013, Amgen had only three drugs that generated $1 billion or more in sales. By 2022 it had nine. Significantly, the transformation is still ongoing, with Bradway and his team constantly pushing Amgen to greater heights, as evidenced by its $28 billion acquisition of Horizon Therapeutics.

6. Accessing substantial external capital from the start.

Transforming a business is often expensive. Mulally borrowed $24 billion to fund Ford's transformation in 2006, and Michael Dell invested more than $60 billion to turn Dell into a leader in infrastructure technology in 2017.

In our study nearly all failed transformations were underfunded. Many leaders tried to finance them through cost-cutting measures. While that strategy may sound appealing, it typically falls short. Efficiency gains and waste reduction alone usually can't provide enough financial resources.

In contrast, nearly all successful transformations tapped the capital markets. External capital played a crucial role in fueling T-Mobile's growth from 2013 to 2020, for instance. Shortly after John Legere took the reins as CEO in 2012, he and his team acknowledged that a substantial investment was required to pull off the turnaround the company needed. At the time, T-Mobile lagged far behind Verizon and AT&T, with only a third of the wireless subscribers of either carrier. One major problem was that T-Mobile had not supported the iPhone when it became ubiquitous. "Before I joined T-Mobile it was the fastest-shrinking wireless company in America," Legere told *Investor's Business Daily*.

Avoiding the common mistake of relying solely on internal cost-cutting measures, Legere and his team decided to borrow $7 billion to initiate a comprehensive transformation. They set out to redefine T-Mobile as the "uncarrier" by eliminating hated industry practices that benefited carriers but harmed consumers. The company started including taxes and fees in its price quotes to eliminate surprises for customers. Unlimited service became standard, and contracts and global roaming charges were abolished. The iPhone was integrated into the T-Mobile network, and the company invested heavily in acquiring spectrum to enhance coverage. Finally, T-Mobile secured an additional $19 billion to fund its $66 billion acquisition of its U.S. telecom rival Sprint in 2020.

Though the transformation required significant investment, the returns were extraordinary. From 2013 to 2019 (Legere's last full year as CEO), the company's earnings soared 1,000%. Subscriber numbers more than doubled, from 33 million to 86 million. That growth far outpaced that of AT&T and Verizon over the same period. The share price of T-Mobile also rose by more than 400% during Legere's tenure, significantly outperforming the S&P 500's 150% gain. During that time T-Mobile's performance even surpassed Apple's.

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Transformation programs often promise breakthrough results, but most never realize them. The successful ones adopt an approach that fundamentally differs from the approach at other companies. Their leaders view change as a continuous process, integrating it into the company's operating rhythm. They understand that organizational energy is a scarce resource and manage it diligently, and they keep the focus on driving the transformation from the middle out. Never forgetting that major change requires major investments, they secure external capital early (and often). In short, successful transformations employ a transformative strategy—a must for companies aiming for enduring success in today's ever-changing world.

A version of this article appeared in the May–June 2024 issue of *Harvard*

Business Review.

Michael Mankins is a leader in Bain's Organization and Strategy practices and is a partner based in Austin, Texas. He is a coauthor of *Time, Talent, Energy: Overcome Organizational Drag and Unleash Your Team's Productive Power* (Harvard Business Review Press, 2017).

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Patrick Litre leads Bain's Global Transformation and Change practice and is a partner based in Atlanta.

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