Winning hearts and minds: The secrets of sustaining change

In a lean transformation, paying close attention to mindsets can make the difference between achieving quick wins that fade over time and capturing the long-term value of continuous improvement.
Organizations that embark on a lean transformation understandably have high hopes. Fixing broken processes, eliminating activities that don’t add value, creating more fulfilling jobs, and delegating more power to the front line all hold out the promise of a better way of working and a more successful enterprise. Most lean efforts deliver early wins that unleash energy and build confidence. Yet these initial successes do not always translate into sustainable improvements.

When we asked European financial institutions to assess their own large scale transformations, fewer than 40 percent rated their program as successful as they would have liked over the long term. McKinsey research into change programs across a range of sectors suggests that the difficulty organizations have in sustaining change can be traced to insufficient attention paid to the attitudes and behaviors of managers and employees. These people-related factors were responsible for more poor outcomes than were the usual suspects—inadequate budgets or badly targeted resources. The reshaping of employee attitudes and behaviors is just as critical to the success of a transformation as the implementation of process changes.

The perception that behavior is a “soft” topic leads managers to assume they can rely on their own instincts, an approach that seldom leads to sustainable long-term change. Instead, managers need to take the time to understand some of the factors that influence human behavior. In our experience, organizations that have achieved true behavioral change in the context of a lean transformation have incorporated six often-overlooked insights.

1. People need to feel that change matters

Most financial institutions implementing lean transformations tell one of two classic change stories to motivate their people. The first—which we might call “good to great”—portrays financial services as an increasingly competitive sector in which customers are demanding better and better service, thus requiring the organization to change in order to recapture its leadership position. The other classic story is the turnaround, which says that the institution is performing below industry standards and must transform itself to survive.

Despite their apparent logic, these narratives lack the power to motivate real change. They primarily address the institution itself: how it can beat the competition, push performance to the next level, pursue industry leadership, and so on. But research by leading social scientists shows that most people are motivated to change by influences coming from beyond the organization. These include the customer, society at large, the working team, and the interests of the individual employee. If the change story is focused only on the organization, it is unlikely to inspire heartfelt commitment to the transformation.

The good news is that lean transformations are capable of delivering multiple benefits to multiple stakeholders. Lean processes eliminate frustrating rework for employees and boost satisfaction for customers. The introduction of work cells enables colleagues to communicate more effectively and achieve goals through closer teamwork. Coaching helps employees perform better while addressing their career development needs. A strong change story will stress the benefits that lean can bring to individual employees, teams, customers, and the wider community, as well as to the institution itself. In effect, by “telling five stories at once,” senior leaders can unleash substantial organizational energy that would otherwise remain dormant.

When a large US financial services company embarked on a cost-reduction program, it devised a change story that ticked all the boxes of conventional change management wisdom. Even so, 3 months on, employee resistance was holding the program back. So the team recast the story to include elements relating to society
(providing affordable services for affordable housing), customers (increasing simplicity and flexibility, reducing errors, making prices more competitive), the company (slowing unsustainable growth in expenses), working teams (reducing duplication, increasing delegation, promoting accountability), and individuals (creating jobs with broader scope). This simple shift boosted employee motivation within weeks.

2. Change must be seen as fair
Making employees care about change and want to contribute to it is one challenge; another is to make sure that change is considered fair.

Whenever an organization makes changes to its structures, processes, systems, and incentives, it should always pay attention to employees’ sense of the fairness of the change process as well as its outcome. Particular care should be taken when changes affect the way employees interact with one another (such as headcount reductions or changes to talent management practices) and with customers (such as sales stimulation programs or pricing changes).

A bank undertaking a major change program discovered that its pricing did not adequately reflect the credit risk it was taking on, so management created new risk-adjusted rate of return models and pricing schedules. At the same time, it modified sales incentives to reward customer profitability rather than volume. The rationale for these changes was not sufficiently delivered to the frontline, and the effect was disastrous. Customers—and not just the unprofitable ones—deserted in droves, and price over-rides went through the roof.

To understand what went wrong, we need to appreciate that people will act against their own self-interest if a situation violates their sense of how the world should work, especially where fairness and justice are concerned. When the bank raised its prices, frontline staff thought it was unfair—a case of executives getting greedy and losing sight of customer service. Some bankers even told their customers how they felt about the new policy, siding with their customers rather than their employer even though this put their personal sales goals at risk. Many bankers used price over-rides to show good faith to customers and take revenge on the “greedy” executives.

Paradoxically, the bankers’ sense of unfairness was misplaced: the new pricing system, in which customers were asked to pay a price commensurate with the risk the bank was taking on, was inherently fair. The downward spiral of bad feeling, lost customers, and price over-rides could have been avoided if the training and communications accompanying the changes had made this fact clear to employees.

Another bank ran into difficulties when it rationalized its IT support services. Formerly, field workers needing IT help simply turned to a nearby technician, a practice that led to unnecessary work and made it difficult to track productivity or plan workloads. As part of its lean effort, the bank required people seeking IT support to call

Change stories should explain lean’s benefit to employees, teams, customers, and the community—not just to the institution.
the help desk first. When workers complained to the field technicians, they replied that the procedure was part of corporate’s plan to cut service levels.

To set the record straight, the bank explained to staff that the new system would speed up service as well as reduce costs. A technician would respond within 1 day (compared with 3 days under the old system), and real emergencies would be handled immediately. Once staff understood the benefits of the new system and saw that it worked, the grumbling died down.

3. Positive feedback and active learning help make change last

Most organizations take a “deficit-based” approach to implementing change: they focus on defining a problem, analyzing its causes, identifying feasible solutions, then developing and implementing an action plan. This approach seems so sensible that it is hard to understand why it might not be effective. Yet motivational research shows that focusing on what is wrong invites blame, causes fatigue, builds resistance, and fails to draw on people’s passions and experience. University of Wisconsin researchers illustrated the value of positive feedback after filming two bowling teams. They gave the teams different videos to review: one showing only mistakes, the other showing only successes. The team that reviewed its own successes was able to improve its performance far more than the team that reviewed only its own errors.

Focusing on the positive aspects is the best approach to promote change. Lean transformation teams can act on this insight by emphasizing the added value that process changes will create for customers and the greater employee engagement that will come from eliminating needless rework, duplication, and complexity.

Another way to promote behavioral change is to engage people in active learning right from the outset. Adults attending lectures, presentations, and discussions—i.e., learning by listening—typically retain just 10 percent of the material after 3 months. Learning by doing—taking part in role plays and simulations and putting lean to work in a “model office” setting—boosts retention rates to 65 percent. When people have an immediate opportunity to put what they have learned into practice in their workplace, retention can approach 100 percent.¹

Lean skill-building programs can capitalize on this insight by adopting a “field and forum” approach that intersperses classroom learning with frequent fieldwork assignments linked directly to employees’ jobs. These assignments provide opportunities to apply new thinking and skills in relevant and meaningful ways, and make learning a much more efficient and rewarding experience. At the executive and management level, on-the-job learning is often facilitated by coaching. Sometimes this takes place in a confidential one-to-one setting; in other cases, coaches sit with managers during everyday tasks, observe how they handle interactions with their staff, and provide immediate feedback. Organizations can further enhance learning by introducing quantifiable performance measures to track competency growth, and setting up certification and rewards to recognize new skills. When leaders treat training as an ongoing part of career development rather than isolated events that end on the last day of class, they also have a better chance of engaging their employees in making continuous improvements in the way they work—one of the key benefits of lean management.

4. Changing behavior means changing mindsets

Some managers believe that employees’ thoughts, feelings, and beliefs are their own private business, and not a suitable subject for discussion in the workplace. But people’s inner lives inform their behavior. If leaders want to change how their employees work, they need to

¹ John Whitmore, Coaching for Performance: Growing people, performance and purpose (Nicholas Brealey, 3rd edition, 2002).
appreciate why people act the way they do and understand how influencing their mindsets can help them change their behavior.

To see how this works in a lean transformation, consider one bank that learned its sales per banker were well below the industry benchmark. The bankers claimed that mounting paperwork left little time for customer interaction. So the bank gave its bankers new sales scripts, easy-to-use tools, and additional training to reduce the need for paperwork. Problem solved? Not at all. Six months later, the hoped-for improvements in sales had failed to materialize. Close investigation revealed that most of the bankers felt uncomfortable interacting with customers, and preferred doing paperwork. Many had introverted personalities and poor interpersonal skills, and found that dealing with wealthier and more educated customers made them feel inferior. To make matters worse, most of the supervisors were drawn from the bankers’ ranks and shared their outlook. Although the outward environment had been changed to make it easier for bankers to spend more time with customers, the bankers’ own mindsets prevented them achieving this goal.

Once it understood this barrier, the company introduced training to help staff explore topics such as personality types, emotional intelligence, and vocational identity. The training helped people to realize that they can learn to change how they act at work even if the new behavior does not come naturally to them at first. Management also sought to present sales in a new light, as a noble pursuit helping customers to discover and fulfill their unexpressed needs. Within six months, the program was back on track and generating sustainable sales gains well above the original targets.

Understanding and influencing employees’ mindsets is sometimes seen as a “soft” subject with little real business impact. Yet when organizations create an environment that motivates employees to work to their full potential—what we describe as a “performance culture”—they achieve considerably better bottom-line results. Exhibit 1 illustrates the impact of a set of pilots conducted in companies undergoing change programs.

### Exhibit 1

**The business impact of performance culture.**

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<thead>
<tr>
<th></th>
<th>Traditional pilot</th>
<th>Pilot using cultural interventions</th>
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<tbody>
<tr>
<td><strong>Bank 1</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit per business banker</td>
<td>8%</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Bank 2</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail banker cross-selling ratio</td>
<td>19</td>
<td>43</td>
</tr>
<tr>
<td><strong>Retailer</strong></td>
<td></td>
<td></td>
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<tr>
<td>Sales-to-labor ratio</td>
<td>34</td>
<td>51</td>
</tr>
<tr>
<td><strong>Telco</strong></td>
<td></td>
<td></td>
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<tr>
<td>Churn reduction</td>
<td>35</td>
<td>65</td>
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The business impact of performance culture. The bar chart shows the percentage improvement in various metrics for different organizations, comparing traditional pilots with those using cultural interventions. Bank 1 saw a 19% improvement in profit per business banker, while Bank 2’s retail banker cross-selling ratio improved by 43%. Retailer’s sales-to-labor ratio improved from 34% to 51%, and Telco’s churn reduction improved from 35% to 65%.
Some pursued traditional approaches; others used cultural interventions to address employee mindsets and behaviors. The second group outperformed the first on every measure. Because both sets of interventions were carried out in the same companies at the same time, they provide compelling proof that paying attention to employees’ mindsets generates tangible benefits.

5. People won’t change unless their leaders do
Most senior executives believe in leading by example. Encouraged by HR professionals and consultants, they commit themselves to role-modeling behaviors targeted by the transformation effort. Yet all too often their efforts bear little fruit. A common difficulty is that leaders don’t consider themselves to be part of the problem, and have little motivation to alter their behavior. Most hard-working and well-intentioned executives believe they are doing the right thing already. They may recognize that their organization is low in trust, bureaucratic, and lacking in customer focus, for instance, while failing to see how their own actions contribute to these shortcomings.

Accordingly, many institutions use 360-degree feedback techniques in surveys or discussions to shed light on areas where leaders’ mindsets and behaviors might represent barriers to change. Engaging an objective observer to sit in on meetings and analyze day-to-day activities in the executive calendar can also be a great help to leaders in understanding how they spend their time and manage others. A CEO who is trying to improve customer focus but spends no time meeting customers is not sending the right
message to the rest of the organization. Nor is a leader who claims not to be bureaucratic but holds meetings that spawn yet more meetings without ever reaching decisions.

To focus attention on behaviors that needed modification, one global bank asked managers to complete self-assessments on specific lean-related topics and had subordinates rate the managers on these topics anonymously. The combined assessments, which were made quarterly, allowed managers to see how far they had to go to achieve program goals and focused their attention on the desired behaviors. Such techniques can be highly effective in holding up a mirror to leaders and helping them overcome their personal behavioral challenges (See “Building lean leaders,” p. 60).

Leaders apart, a few employees in most organizations exert disproportionate influence over the behavior of others. Conventional change management wisdom recommends enlisting these “influencers” to ignite behavioral change. But we would advise caution: the reach of influencers is often narrower than organizations might imagine, and engaging them in sufficient numbers to make a real difference can be costly. Experience suggests that success depends less on influencer persuasiveness and more on the receptiveness of the target audience.

6. Personal involvement creates ownership and impact

Most leaders realize that they need to devote a great deal of time to communicating their change stories to employees through road shows, town-hall forums, blogs, intranets, and other approaches. But effective communication is a two-way process. Only by listening to employees as well as speaking to them can managers make the organization’s change story compelling.

The CEO at a division of a UK-based bank drafted a change story and asked his top team for their feedback. He also asked each team member to write a change story for their own department that would support his broader story. This process was repeated at progressively lower levels until it reached the front line. Although it took a long time to cascade these multiple change stories, the process produced stories that were relevant to employees and engendered tremendous commitment to the program.

People need to feel actively involved not only in making change happen but in deciding what to change and how to make the working environment more efficient and effective. Flatly telling employees what to do and leaving them to it is demotivating: it imparts no ownership of the initiative, while undermining personal involvement and discovery.

Applying this insight in a lean setting can have a powerful impact. Consider the daily huddles that many financial institutions hold around visual performance boards to discuss today’s targets, yesterday’s results, ongoing challenges, and ideas for tackling them. In a non-lean setting, topics like these would probably be aired in a formal meeting with a team leader or department head leading the discussion and telling subordinates what to do. In a lean organization, by contrast, the huddle is a forum for brainstorming and joint problem solving, and the discussion can be led by any team member. Their role is not to provide answers or delegate tasks, but to ask good questions, motivate colleagues around shared targets, and encourage new thinking to solve recurring problems. Rotating the leadership of the huddle gives team members an opportunity to develop leadership skills as well as the satisfaction of contributing to a more effective working environment.
Many financial institutions have had success using lean programs to deliver short-term improvement goals, but sustaining the change is often more difficult. A well-informed approach to engaging employees in the process of change can help lean programs reach beyond short-term success to become a long-term enabler of sustainable competitive advantage. Leaders that act on the six insights we have discussed will stand a better chance of engaging their employees and unleashing the energy to make real change in their organizations.

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Further reading


