McKinsey
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The
State of Organizations
2023

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Ten shifts that are transforming organizations— and what to do about them

CEOs together with their leadership teams around the world have been operating in a highly volatile and uncertain environment, first having to cope with the COVID-19 pandemic and then with the ensuing economic slowdown, soaring inflation, and geopolitical disruption. In such an unsettled period, it's no surprise that efforts to strengthen short-term resilience have dominated the agenda at many companies. Less obviously—but no less importantly—business leaders are having to address a range of organizational shifts that have significant implications for structures, processes, and people. These shifts are both challenging and harbingers of opportunity, depending on how organizations address them.

Some shifts, most notably how to strike the right balance between in-person and remote work, took place at the height of the pandemic and have lingered. Others, such as an ongoing mismatch in the labor market and a decline in employees' mental health,[1] have been accelerated by the COVID-19 crisis. Still others, such as effective leadership development and capability building, are perennial organizational issues that have proved more vexing—and more important to get right—in the current environment. All of these shifts have long-term consequences, and all require clearheaded thinking and decisive action that can't be postponed.

Finding the appropriate organizational responses to these changes is far from simple. As part of research into this topic, we conducted a survey of more than 2,500 business leaders around the world. Only half say their organizations are well prepared to anticipate and react to external shocks, and two-thirds see their organizations as overly complex and inefficient.

How can leaders and their teams reorient their organizations? Where to look? Where to start? Management philosophies and approaches that succeeded in the past may no longer be fit for purpose in a world in which companies and industries are boundaryless, every organization is digital, hybrid work environments are taking hold, and the employee–employer contract is up for renewal (and potential overhaul).

With this in mind, we have launched McKinsey's *The State of Organizations 2023* report, an ongoing research initiative that both pinpoints the most important people, procedural, and structural shifts that organizations are grappling with and seeks to provide some ideas and suggestions about how to approach them.[2]

In this inaugural report, we go in depth on ten of the most important shifts. As a part of the exercise, we share inspiring stories and best practices from beacons—organizations that have been able to adapt to recent economic and operational disruptions and forge a new path for the modern organization.

We conclude by suggesting an integrated approach to achieving organizational change at scale. It comprises developing a clear perspective about the extent of the organizational changes that are truly needed, cultivating talent, investing in leadership, and responding—at scale—to changing circumstances, new challenges, and new opportunities.

The potential rewards of a job well done are significant: leaders who can unlock the most value from their organizations today can become the performance champions of tomorrow. Conversely, those that fail to improve their organizations may fall behind peers who have succeeded in doing so, putting in jeopardy their competitive position and growth prospects. McKinsey research has shown a direct link between an organization's health and its financial performance.[3]

In any discussion of organizations, it's important to recognize their fundamental importance to our lives. Of the approximately 8.0 billion humans on this planet, about 3.3 billion of them worked in organizations in 2022.[4] They are being shaped, both directly and indirectly, every day by what goes on at work—at a time when the very definition of "being at work" is in a state of flux. Getting organizations right is thus not just about individual companies and institutions; it's about the broader well-being of society.

The ten most significant shifts facing organizations today

1 Increasing speed, strengthening resilience

Volatility is a feature, not a bug, in today's organizations, yet half the respondents in the State of Organizations Survey say their organization is unprepared to react to future shocks. Those able to bounce forward—and quickly—out of serial crises may gain significant advantages over others. To be able to do so requires organizing for speed of response, giving power to your people, and developing a culture of continuous learning.

In the 2020–21 economic recovery, resilient companies generated TSR 50% higher than their less resilient peers'

+50%
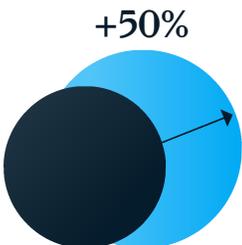
2 'True hybrid': The new balance of in-person and remote work

Since the pandemic, about 90 percent of organizations have embraced a range of hybrid work models that allow employees to work remotely from off-site locations (including home) for some or much of the time. What's important is that organizations provide structure and support around the activities best done in person or remotely. By remaining open to the entire universe of options for how, when, and where employees work, including with a reset of performance expectations, "true hybrid" organizations can distinguish themselves as destination workplaces.

>4 of 5 employees who have worked in hybrid models over the past 2 years want to retain them

>4 of 5
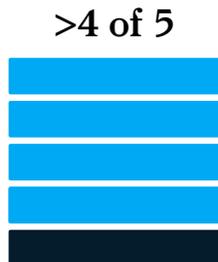
3 Making way for applied AI

AI doesn't just have the potential to supercharge a company's operations; it can also be used to build better organizations. Companies are already using AI to create sustainable, long-term talent pipelines; drastically improve ways of working; and make faster, data-driven structural changes to their organizations. As organizations embrace the opportunities offered by AI, they need to focus on embedding its use in corporate culture, hiring and developing AI-savvy leaders, and being thoughtful about AI-related risks and ethical concerns.

Organizations used an average of 3.8 AI capabilities (eg, natural-language generation, computer vision) in 2022, double the 1.9 used in 2018

3.8

1.9

4 New rules of attraction, retention, and attrition

People are revising their attitudes both toward work and at work. Employees who quit (or who are "quiet quitting") say it isn't just money, work–life balance, professional development, or purpose that will bring them back to work in 2023: it's a combination of all those things. In Europe, for example, 35 percent of people leaving jobs cite unsustainable performance expectations. Organizations can respond by tailoring employee value propositions to individualized preferences in ways that can help close the gap between what today's workers want and what companies need.

39% of respondents in a recent survey conducted in 7 countries say they are planning to leave their jobs in the next 3–6 months

39%
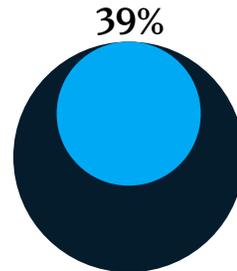
5 Closing the capability chasm

Companies across sectors often announce technological or digital elements in their strategies without necessarily having the right capabilities in place to integrate them. To achieve a competitive advantage, organizations need to build *institutional* capabilities—that is, an integrated set of people, processes, and technology that creates value by enabling an organization to do something consistently better than its competitors do. That means plugging gaps in their core activities, which are often the result of insufficient resources or inconsistent commitment.

Only 5% of respondents say their organizations already have the capabilities that they need

5%
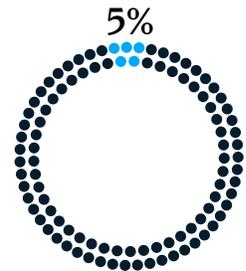
Through the State of the Organizations Survey, conversations with CEOs and their teams, and the findings of recent McKinsey research, we have identified ten of the most important organizational shifts that businesses are grappling with today.

6 Walking the talent tightrope

Business leaders have long walked a talent tightrope—carefully balancing budgets while retaining key people. In today's uncertain economic climate, organizations need to focus more on finding ways to match top talent to the highest-value roles. The idea isn't new, but it's the right one in this era of hybrid work models, increased employee mobility, and skill shortages. McKinsey research shows that, in many organizations, between 20 and 30 percent of critical roles aren't filled by the most appropriate people.

The highest performers in a role are 800% more productive than average performers in the same role

800%
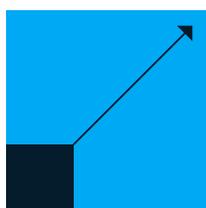
7 Leadership that is self-aware and inspiring

Leaders these days are necessarily focused on short-term responses to crises, but they also need to think longer term and cultivate fit-for-purpose behaviors. They need to be able to lead themselves, they need to be able to lead a team of peers in the C-suite, and they need to have the leadership skills and mindset required to lead at scale, coordinating and inspiring networks of teams. That requires leaders to build a keen awareness both of themselves and of the operating environment around them.

Only 25% of respondents say their organizations' leaders are engaged, are passionate, and inspire employees to the best-possible extent

25%
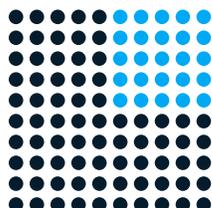
8 Making meaningful progress on diversity, equity, and inclusion

Many organizations are focusing on diversity, equity, and inclusion (DEI), but in many cases, the initiatives aren't translating into meaningful progress. What's often missing is a clear link between DEI strategy and the business strategy. One path forward is for leaders to be more systematic early on, considering the objectives and desired level of impact from their programs. To realize DEI aspirations, leaders will need to identify opportunities for making progress within their organizations, as well as for improving their external communities and society.

>70% of respondents say their organizations express transformative DEI aspirations; only 47% say they have the infrastructure to realize their DEI aspirations

>70%

47%
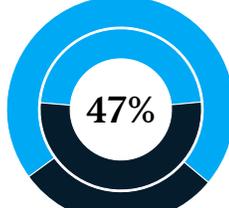
9 Mental health: Investing in a portfolio of interventions

Nine of ten organizations around the world offer some form of well-being program. But global health and well-being scores remain poor, despite well-intended interventions. Research highlights the link between reports of poor mental health and well-being and organizational issues, including attrition, absenteeism, lower engagement, and decreased productivity. In 2023, organizations need to refocus their efforts on addressing the root causes of mental-health and well-being challenges in a systematic way; one-off and incremental fixes won't be enough.

Employees facing mental-health and well-being challenges are 4× more likely than others to want to leave their organizations

4×
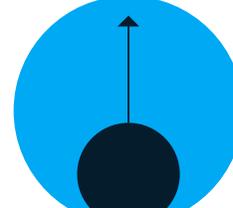
10 Efficiency reloaded

In today's uncertain business climate, companies are refocusing attention on efficiency measures—more than one-third of respondents in our survey list efficiency as a top three organizational priority. Boosting efficiency is about more than managing immediate crises or getting the same work done with fewer resources. Deploying resources more effectively to where they matter the most promises substantial benefits, including improved organizational health, higher shareholder returns, and better and faster decisions. Being efficient often means placing more trust in your organization and empowering employees.

~40% of respondents point to complex organizational structure as a cause of inefficiency, and a similar proportion cites unclear roles and responsibilities

~40%
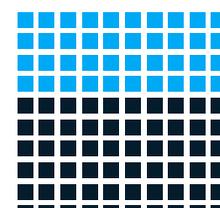
1 | Ten deep dives
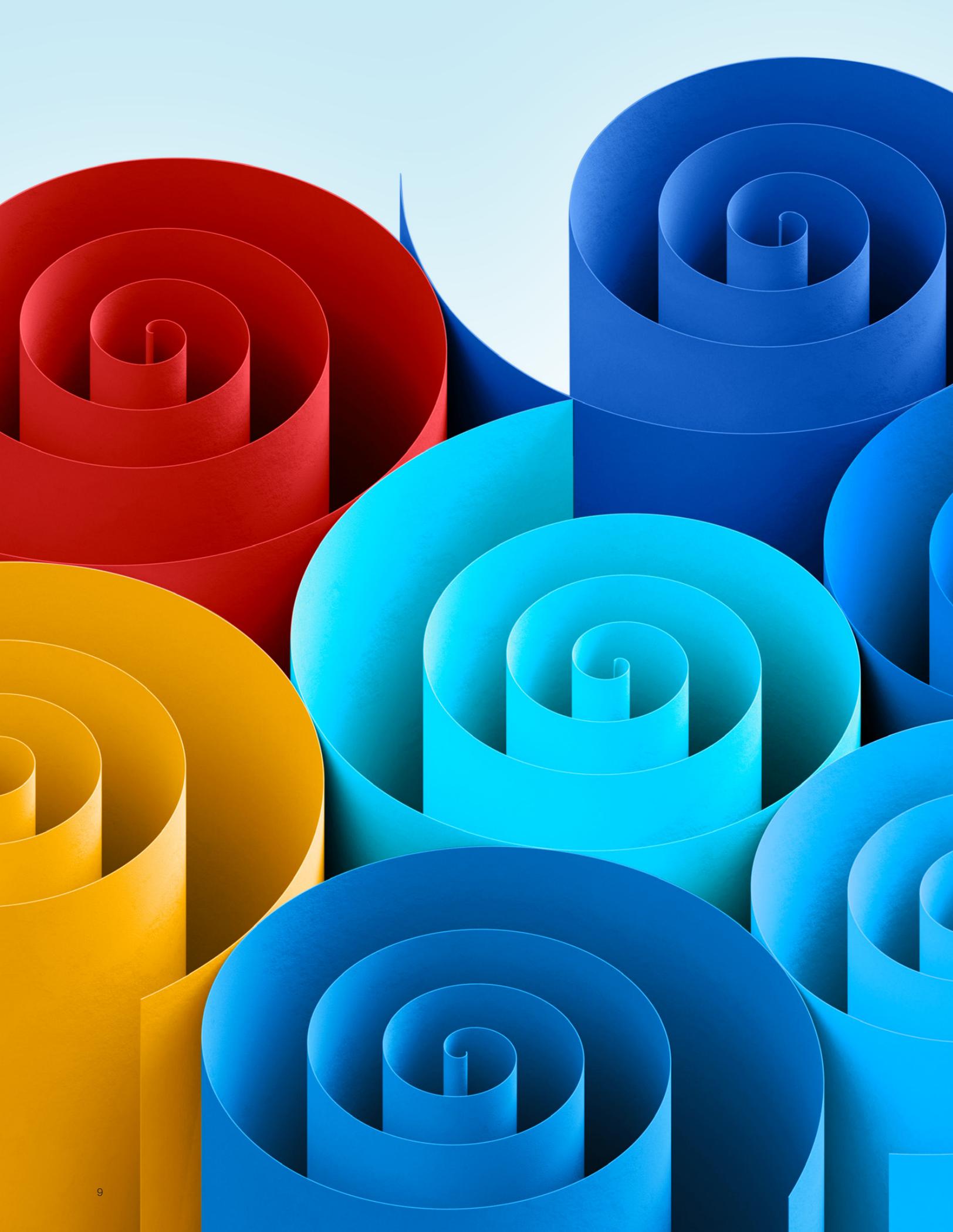
Increasing speed, strengthening resilience

Dealing with serial crises and being able to bounce forward out of them—and quickly—are more important than ever.

What's changing? Business shocks requiring quick responses have become the new norm for organizations. Companies need to focus on being prepared and ready to act at all times—and quickly. In the current volatile age, individual and organizational resilience combined with speed can be determinant factors for success and survival. Yet our research suggests that while some organizations do emphasize preparation, many focus only on some singular aspect of it (anticipating and then addressing an acute challenge, for instance). They forgo the holistic approach of routinely reviewing and transforming structures, processes, and people so that they don't just bounce out of crises but bounce forward—landing on their feet relatively unscathed and racing ahead with new energy.[1]

As recent experience has once again demonstrated, crises will emerge. Global business today is fast moving, highly interdependent, and complicated. People understand the importance of organizational resilience: more than 60 percent of respondents in our State of Organizations Survey report that it will only become more important in the future. Yet many say they don't feel that their organizations are well prepared for the external shocks that may emerge over the next few years—or the further disruption that those shocks might bring (Exhibit 1).

Structure may be a factor here. Only 14 percent of respondents report that their organizations have adopted a fully agile operating model. Meanwhile, organizations with little to no experience with agility or adaptability can end up in a double bind: unmotivated to prepare for crises during periods of calm *and* unable to change course and respond quickly when disruption occurs.[2]

The benefits of getting it right

In our experience, companies with capabilities in both adaptability and resilience are better able than others to absorb shocks and turn them into opportunities for capturing sustainable, inclusive growth. Leaders and teams in adaptable organizations are better prepared than others to assess the situation at hand, reorient themselves, double down on what's working, and walk away from what's not—and do it all quickly. With each bounce forward, they become more resilient.

The competitive advantage that resilience provides was evident during the 2007–09 global financial crisis. Per McKinsey research, resilient companies in that time generated about 20 percent more total shareholder return (TSR) than their peers did—an advantage that accelerated to about 50 percent in the turnaround years of 2009–11 and 120 percent during the stable period of 2011–17.[3] And that resilience premium was visible again during the height of the COVID-19 pandemic. McKinsey research shows that resilient companies generated 10 percent more in TSR than less resilient peers did during the economic downturn between the fourth quarter of 2019 and the second quarter of 2020. In the ensuing economic recovery, from the second quarter of 2020 to the third quarter of 2021, the differential grew to as much as 50 percent.

Exhibit 1

Many business leaders say they feel that their organizations are unprepared to react to future shocks and disruptions.

Organizational preparedness to anticipate and react to external shocks and disruptions,
% of respondents (n = 442)[1]

Not at all	A little	To some extent	Rather well	Very well
3	12	35	34	16

[1] All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: How well is your organization prepared to anticipate and react to external shocks and disruptions?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

Research by Jennifer Chatman and her colleagues at Haas School of Business at the University of California, Berkeley, points to a clear link between organizations fostering a culture of adaptability and achieving superior economic performance.[4] The research shows a 28 percent increase in revenue over the course of three years among high-tech companies that had established adaptable cultures. Meanwhile, McKinsey analyses indicate that the top quartile of businesses exhibiting healthy, resilient behaviors are more than 40 percent less likely than those in the bottom quartile to go bankrupt (Exhibit 2).

Given these findings, investing in resilience through adaptability would seem to be a no-regrets move. So what accounts for organizations' lack of preparedness?

Issues to address

The State of Organizations Survey respondents we asked about resilience identify several barriers to strengthening it in their companies (Exhibit 3). Number one is having limited funds to develop surplus capacity and contingency solutions. One-third of respondents cite unclear priorities for targeting resilience. Another one-third say initiatives are being launched in organizational silos, limiting their effectiveness. An additional one-third of our survey respondents identify limited willingness and a lack of excitement—what Professor Chatman and her colleagues might refer to as a "low-adaptability culture"—as impediments to building resilience in their organizations.

Exhibit 2

Organizations with healthy, resilient behaviors were better able than those with poor organizational health to withstand major disruptions in 2020–21.

Share of organizations likely to go bankrupt over next 2 years,[1] by level of organizational health, %

Top quartile	30
Middle quartiles	48
Bottom quartile	73

43 percentage points
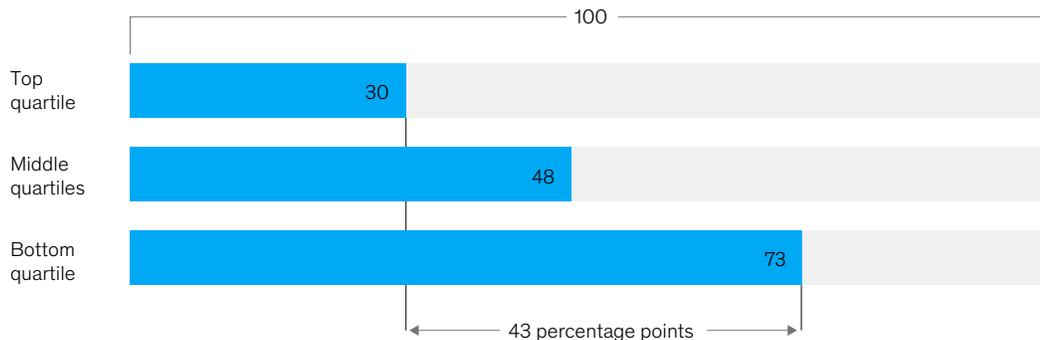
[1] By 2020 Altman Z-score (formula that uses profitability, leverage, liquidity, solvency, and activity ratios to determine if a company is headed for bankruptcy).
Source: Corporate Performance Analytics by McKinsey; Organizational Health Index by McKinsey, 238,489 respondents, April 2020–21

Exhibit 3

Obstacles to strengthening resilience range from a lack of resources to dramatic differences between hierarchy levels and functions.

Challenges to strengthening resilience in organizations, % of respondents (n = 442)[1]
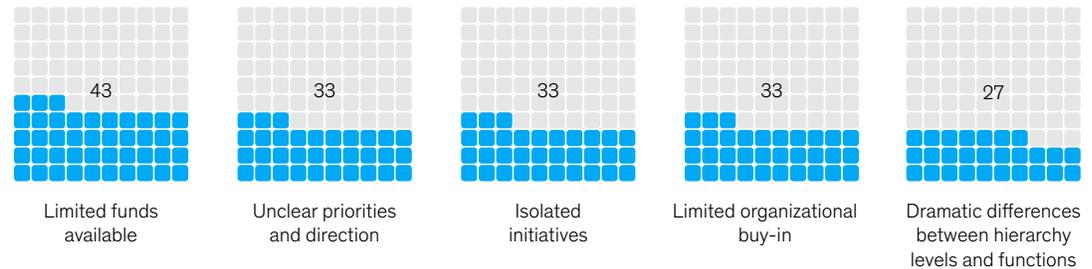
Limited funds available	Unclear priorities and direction	Isolated initiatives	Limited organizational buy-in	Dramatic differences between hierarchy levels and functions
43	33	33	33	27

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: Which challenges do you see to strengthening resilience in your organization? Multiple responses were allowed. The response options displayed are the top options selected and represent a sufficient number of responses to be meaningful.
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

Finding the right formula

To address the challenges cited by our survey respondents, leaders can start by thinking systematically about ways to build up their organizations' resilience. They will need to take care to review and revise these elements on an ongoing basis rather than only when external forces or global crises force them to do so.

Organize for speed of response

The way that organizations are set up is a key determinant of their ability to act quickly and effectively when a crisis strikes or a market turns. McKinsey research shows that, compared with peers in slow-moving companies, leaders in fast-moving organizations report 2.1 times higher operational resilience, 2.5 times higher financial performance, 3.0 times higher growth, and 4.8 times higher innovation.[5]

A range of initiatives can help speed up the ways of working within an organization. Such initiatives include forming smaller, cross-functional teams that pursue their own ideas (and get a budget for it); using inspiring role models to embody specific ideas in a meaningful and visible way; offering a well-tailored change narrative; and eliminating unnecessary meetings, events, and travel to allow people to focus on what really matters.[6]

Give power to your people

Successful companies increasingly ask employees to apply their own judgment and drive their organization's success actively.[7] To move faster, companies might consider removing managerial layers (such as by redrawing organizational charts). Dynamically staffing certain individuals and teams for high-priority projects could also improve speed, as could conducting more frequent performance reviews (for instance, quarterly instead of annually).

Develop a culture of continuous learning

An organization is only as resilient as its people. That's why it's so critical for business leaders to encourage adaptability among employees and equip them with tools that allow them to work as quickly as situations dictate. McKinsey research suggests that employees who are more adaptable tend to have an edge in managing change and adversity.[8] It's important to find and promote adaptable leaders who don't just react when faced with, say, a natural disaster, a competitor's moves, or a change in team dynamics. They take the time to coach team members through the change. They catalyze new behaviors, and they develop capabilities that can help set the conditions for both a short-term response and long-term resilience.[9]

'True hybrid': The new balance of in-person and remote work

Hybrid work models are here to stay—but not at the expense of teamwork.

What's changing? Before the onset of the COVID-19 pandemic, most organizations expected employees to spend more than 80 percent of their time in an office.[1] Now only about 10 percent do, while the remaining 90 percent have embraced a range of hybrid work models that allow employees to work virtually from off-site locations (including home) for some or much of the time.

Employees generally like this development: more than four of five who have worked in a hybrid model over the past two years want to retain it, largely because of the flexibility and balance it affords them.[2] Organizations are settling into an amorphous in-between state. The hybrid work model is a development that seems here to stay. Only 14 percent of respondents to the State of Organizations Survey believe that remote work will become less common in the future; more than half believe it will become more common (Exhibit 4).

Leaders, managers, and employees are still grappling with the effects of this broad behavioral upheaval. Organizations have been forced to reexamine foundational norms: Where do employees work? When do employees work? How do employees work?[3] To succeed, each organization must determine how best to combine remote and in-person work in ways that suit the specific needs of its workforce.

This is the world of "true hybrid": organizations fully acknowledge the need to provide structure and support around which activities are best done in person or remotely. True-hybrid organizations create policies, workflows, and documentation that help employees understand which activities are best done in person and whether those activities are best carried out in real time or asynchronously (that is, with all team members being online when it's most convenient for them rather than simultaneously). True-hybrid organizations also consistently address the shortcomings that occur with conducting activities in the less optimal format.[4] By looking beyond the static definition of hybrid work models—beyond working at home versus an office—and remaining open to the entire universe of options for how, when, and where employees work, true-hybrid organizations can distinguish themselves as destination workplaces.

The benefits of getting it right

Finding an appropriate balance between in-person and remote work can bring important potential organizational benefits, including in talent and productivity.

Attracting and retaining talent
Organizations that optimize their hiring processes and employee journeys for a distributed workforce can attract talented workers who may be interested in certain jobs but feel reluctant to relocate to perform them. They may also be able to access new pools of talent in previously unavailable parts of the country or in other countries, as well as workers with disabilities, parents of young children, and others whose needs aren't suited to traditional working models.

Starting in February 2022, remote jobs posted on LinkedIn received more than half the applications—even though they accounted for less than 20 percent of the job postings.[5] McKinsey research on the workforce shows that three of four employees

report that having control over *when* they work was a key factor in their decision to accept their current job.[6] And McKinsey research on workplace flexibility shows that among people who prefer hybrid work models, 71 percent say they are likely to look for other opportunities if their current employers discontinue those models.

Improving productivity
During the height of the COVID-19 pandemic, some 58 percent of executives reported that the productivity of individual employees had improved.[7] Most organizations also saw rises in the productivity of teams, employee engagement, and customer satisfaction. By allowing organizations to construct globally dispersed teams working in different time zones, a remote work model can enable around-the-clock coverage and enhanced productivity, although some of the data on the issue are less than clear cut.[8]

To make the most of a hybrid work model, companies must balance remote-work benefits with the advantages brought by in-person work. Increased productivity can also be achieved and sustained when organizations balance the flexibility of work with a structured environment. More specifically, in-person work in a psychologically safe environment can bring about easier access to apprenticeship, mentorship, and sponsorship opportunities, as well as

a clearer delineation between work and life boundaries that may help workers manage their well-being.[9]

Issues to address
If a true-hybrid work model is to thrive, people from every part of an organization will need to adjust physically, mentally, and emotionally. Along the way, it's important to address some basic obstacles.

Many managers feel uncomfortable leading hybrid teams
More than half of respondents in our State of Organizations Survey report that their team leaders are either uncomfortable or barely comfortable leading remote and hybrid teams. Only 15 percent say they are very comfortable (Exhibit 5). Managers of hybrid teams miss the day-to-day oversight that naturally occurs in an office setting. They have less contact with employees who work remotely, and that can lead to cycles of miscommunication.

Remote employees sometimes don't feel seen in hybrid settings
Managers can unintentionally create a two-tier system within hybrid teams. People working in an office might be valued simply because their managers can observe them working, while remote employees might be judged solely on the quality of their deliverables and the dynamics of their

Exhibit 4

Survey respondents expect to see more, not less, remote work.

Expected evolution of remote work, % of respondents (n = 566)[1]
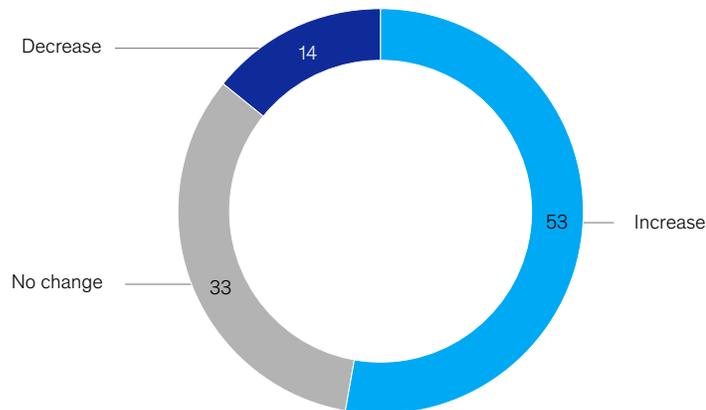
Decrease — 14
Increase — 53
No change — 33
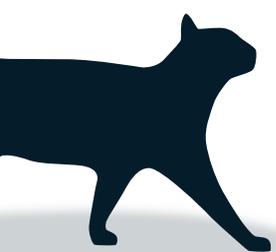
Exhibit 5

Survey respondents report that team leaders are uncomfortable leading remote teams.

Perceived comfort of team leaders with leading remote teams, % of respondents (n = 566)[1]
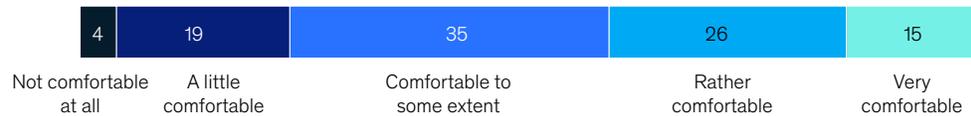
4	19	35	26	15
Not comfortable at all	A little comfortable	Comfortable to some extent	Rather comfortable	Very comfortable

Note: Figures do not sum to 100%, because of rounding.
[1] All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: How comfortable do you believe team leaders in your organization are today with leading remote teams compared with leading in-person teams?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

presence on infrequent video calls. The result can be managerial bias. For workplaces already challenged by diversity- and retention-related issues, adopting an ill-conceived hybrid work model could speed departures, decrease levels of inclusion, and harm performance.[10]

Boundaries between work and life can blur in a hybrid context

It's no accident that hybrid work models have changed schedules and processes: almost 60 percent of respondents in a McKinsey survey ranked work–life support, such as switching to hybrid working, as a key priority for companies.[11] But work norms are catching up. For instance, emails, phone calls, and instant messages may arrive far outside traditional working hours, and that can create disquieting uncertainty for the receiver.

Finding the right formula

While the hurdles of hybrid work models are evident, so are the opportunities. But it's no longer enough just to tweak old policies and practices. While no one size fits all, organizations can behave as though *all* workers are off site *all* the time, even if that isn't always true. They need to develop a new set of norms suited to a new kind of workplace. Our research and experience in the field suggest a few areas where they can start their focus:

— *Reset performance expectations.* Discussions of performance need to take asynchronous work into account. That would mean managers emphasizing work outputs rather than time spent working, for example. It's important to create an environment in which on-site and off-site colleagues all feel that they are on an equal footing.

— *Be transparent.* It's important to have a single source of truth for managers and employees at all levels. Perhaps the source is the combination of a handbook and other documents that lay out the rules and norms and is continually updated. Such documents can outline, for instance, who can work remotely and why, the levels of support for in-person and off-site work, and who has decision rights in certain matters.

— *Be purposeful about where people work.* Many employees don't want to come into the office to do work they can just as easily do at home. Many companies are therefore starting to refocus in-person work on activities that take advantage of the presence of colleagues in the same place. Companies need to balance the increased potential of a globally dispersed workforce with the relational fabric and sense of community that employees crave.

— *Remove ambiguity about working practices.* True-hybrid organizations emphasize clear, consistent communication protocols. For instance, if colleagues agree that their team will share materials through certain channels only at certain times of the day or week and have agreed-upon response times, expectations are set. Thus the boundaries between work and life become sharper.

— *Test and learn.* Pulse checks can determine what's working and what needs to be improved. Companies can adjust codes and boundaries, if necessary, based on employee feedback. Leaders shouldn't be afraid to share lessons learned through experience—even if that means admitting to failures or experiments that weren't well received.

Making way for applied AI

Applied AI has more potential than just to supercharge your company's operations: it's also a powerful tool to build better organizations.

What's changing? More than half of the respondents in a McKinsey Global Survey on AI said they had adopted AI in at least one of their business units, and nearly two-thirds expected that their companies' investments in AI would increase over the next few years.[1] While some of this investment is about improving the speed and scale of operations, applied AI is also a powerful tool to build better organizations.

While organizational decisions previously were made mostly based on management judgment, AI-driven organizations are reimagining how they manage talent, processes, and organizational structures. These organizations are using AI to create sustainable, long-term talent pipelines; drastically improve the ways of working; and make faster, data-driven structural changes.

For talent, more and more companies are using AI-enabled software to match job candidates' behavioral attributes to open positions, helping these organizations shift to a skill-based approach to hiring. AI also helps in tailoring job offerings and advertising them to the right candidates, screening those candidates, and accounting for human biases. Other talent management applications include AI-based learning management systems and employee experience platforms.[2] One global tech company introduced a tool that predicts the likelihood of employee exits based on more than 20 data sources and informs leaders accordingly. This gives leaders the opportunity to approach these employees proactively, understand the underlying reasons for their potential interest in leaving, and react to the information.

AI can also drastically improve the ways of working. One digital health company began using an AI-enabled integrated system to foster a collaborative, data-driven, and fun work environment and, in turn, has boosted productivity, employee engagement, and performance. No more emails at this company; everything is managed through the system. In addition to budgeting, invoicing, time tracking, and meeting scheduling, the system can even automatically order lunch for employees when they scan into the building. It also provides personalized data-driven experiences for employees. Other companies have used AI tools to improve communication across their organizations or help leaders assess the overall quality of team dynamics by identifying group-level attributes.[3]

Companies are using AI to make data-driven structural changes. These include using HR data to identify opportunity areas for leaders to ensure that the right work is being done in the right structure and to rebalance suboptimal spans of control across managerial roles, removing duplicative and transactional work and redistributing the allocation of activities across roles. The right people across the organization (business and HR leaders) can then collaborate and use these insights to design various scenarios of structural changes seamlessly in an integrated system, with real-time implications of design choices on target outcomes. The endless drawing and redrawing of organization charts is finally over.

The benefits of getting it right

The application of AI for building better organizations holds promise, particularly when companies manage AI with practical, ethical, and risk-related concerns in mind.

First, McKinsey surveys show a strong impact of AI on efficiency.[4] Companies that have seen the biggest bottom-line returns from applied AI—those that attribute at least 20 percent of EBIT to their use of AI—are more likely to have set themselves up for success by aligning AI and business strategies. Moreover, the share of respondents in those surveys reporting at least 5 percent of EBIT attributable to AI have remained comparable year over year (27 percent in the most recent survey results; 27 percent and 22 percent in the two prior years' results, respectively).

Second, AI amplifies talent. It helps business leaders improve the speed and efficiency of candidate hiring, make their resource deployment more effective, increase the personalization of capability development, and improve employee experience and engagement. In line with that, McKinsey research shows that organizations with strong use of people analytics see an 80 percent increase in recruiting efficiency, a 25 percent rise in business productivity, and a 50 percent decrease in attrition rates.[5]

Third, applied AI (machine learning, in particular) can help organizations perform with speed and precision, thereby improving resilience. Individual and team decision making can be pushed to the edges of the organization, removing obstacles to action, responding to market needs faster, and accounting for factors such as human bias and politics. This translates into quantifiable, organizational impact.

Issues to address

AI deployment brings a number of challenges, many of which build on the issues that companies may already be facing with digital deployment.

One common challenge is resistance to change. Some employees may be wary of a class of technology that can be abused or exploited if proper guardrails and privacy protections aren't set—or which could result in losing their jobs.

Another common challenge to implementing AI is the lack of talent and capabilities needed to drive technological change (Exhibit 6). The required digital and analytical skills include software development, customer insights, and data science.

A third common challenge is AI-related risks and ethical concerns. In the 2022 McKinsey Global Survey on Digital Trust, 55 percent of respondents report incidents in which active AI had produced

Exhibit 6

Survey respondents report existing or impending capability gaps in technology-oriented roles.

Technology capability gaps, by role, % of respondents (n = 489)[1]

Role	%
Digital and analytics, overall	40
Software development	32
Customer insights	26
Data science	25
Product management	24
Digital marketing	21

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to respondents: For which roles are you about to face or already facing capability gaps? The response options displayed are the top options selected, have the largest gaps compared with other roles, and represent a sufficient number of responses to be meaningful.
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

biased, incorrect, or otherwise problematic results that reduced employees' confidence in AI or created financial losses.[6]

Finding the right formula

If organizations redefine themselves as AI-first organizations—entities driven by AI, not just power users of it—the characterization can help them address key issues. AI-first organizations focus not just on the technologies behind AI but also on the operating models, culture, talent, leadership, and capabilities required to get the most from their AI investments.

Embedding AI in corporate culture

AI-first organizations are focused on building a perpetual-learning culture and teaching AI to the whole workforce. That's the only surefire way to drive widespread acceptance of AI. The organizations that report the highest returns from AI are nearly three times more likely than others to report using a variety of capability-building programs (such as experiential learning, self-directed online courses, and certification programs) to develop technical employees.[7] They are also nearly twice as likely as others to offer programs for nontechnical employees.

Hiring or developing AI-savvy leaders

At a system level, leaders in AI-first organizations will likely need to establish new technology roles— for instance, chief analytics officer, chief data officer, and chief privacy officer. These leaders will have the requisite technological skills and background but will also need to demonstrate business acumen and understand how the organizations and the ecosystems they operate in create value and drive growth. They will also understand that corporate conduct counts, so they will show a keen interest in understanding and adhering to data ethics and hygiene. For example, they could make it clear that some suggestions about data-oriented projects and practices simply aren't up for negotiation. In this way, they can help ensure that organizations steer clear of potential privacy issues.

Leaders in AI-first organizations also must be change agents who can advocate for the inclusion of technology in strategy and process discussions. They can help bridge the divide between technology and business teams. Above all, they can actively embrace their role as talent scouts—attracting,

retaining, and cultivating high-end machine-learning experts, software engineers, data engineers, data scientists, and other top talent for AI-related roles. McKinsey research shows that the companies seeing the biggest bottom-line returns from applied AI are more likely than others to have well-defined capability-building programs to cultivate AI talent.[8]

Being thoughtful about AI-related risks and ethical concerns

AI-first organizations contribute to and adopt the requirements for responsible, trustworthy AI use. They consider possible unintended effects on societal and environmental well-being, technical safety, data privacy and governance, diversity, and fairness, among other factors. These are many of the same concerns that already affect people analytics.

McKinsey research shows that the companies seeing the biggest bottom-line returns from applied AI—those that attribute at least 20 percent of EBIT to their use of AI—are more likely than others to follow the best practices that enable explainable AI.[9] That is, they can always express why an AI system reached a particular decision, which is especially important in organizations in which AI models may be used to automate hiring searches, loan approvals, or other sensitive processes. We have seen steady increases in the focus on mitigating AI risks related to equity and fairness.

New rules of attraction, retention, and attrition

People are revising their attitudes both to work and at work.

What's changing?
"Is there anybody out there?" It's a question that senior leaders around the world are asking as they try to fill open positions while keeping existing employees on board and engaged. In the wake of the COVID-19 pandemic and the accompanying "Great Attrition," human capital is scarcer than it's ever been. Despite recently announced layoffs in some sectors, in the United States, for example, there are 1.8 job openings for every hire, according to the US Bureau of Labor Statistics.[1]

According to McKinsey research conducted between 2021 and 2022, 33 percent of employees across nine countries in Europe, 40 percent of employees in the United States, 45 percent of employees in the Middle East, and 60 percent of employees in India were planning to leave their jobs.[2] But our State of Organizations Survey showed that most surveyed employers in those countries erroneously believed that less than 20 percent of their workforce were planning to leave. And relatively few employers have acknowledged or found ways to reengage the "quiet quitters"—a spectrum of employees who are doing less than they had done previously, ranging from those who fulfill their defined job descriptions but don't do anything more to those actively destroying value by doing nothing.

Many employees are redrawing the boundaries between their work and personal lives. Some have left jobs to take on very different roles. Others are leaving the workforce entirely. We have found that what employees want from work—for instance, flexible hours, remote work, opportunities to advance, tasks that have purpose and meaning, and adequate compensation—can vary significantly, depending on age group, life stage, work experience, and other factors.

In this changed environment, the question for senior leaders to ask is, "What do we need to do differently to attract and retain top talent?"[3]

The benefits of getting it right

Recent research from the McKinsey Global Institute underscores the critical importance of attracting and retaining talent: companies that successfully develop people and manage them well (organizations we refer to as "people and performance winners") gain a long-term performance edge (Exhibit 7).[4] The following are among the key findings:

— *Organizational capital.* Companies that successfully build human capital—about one in ten in the data set for the study—have more consistent earnings than sector peers do and greater resilience during crisis. They are also better at retaining talent, with attrition rates that are about five percentage points lower than those of peers.

— *Dual success.* Some organizations prioritize talent development *and* manage to deliver top-tier profitability at the same time. These

companies are more likely to become large-scale superstars. They exist in all sectors and average more than $1 billion in economic profit.

— *Competitive advantage.* Companies that combine people and performance success have a distinctive organizational signature

that challenges and empowers employees while fostering bottom-up innovation. This management style seems to activate human capital and create a tangible competitive advantage: the people and performance winners in our study were 4.2 times more likely than the average company to remain in the top quintile of

Exhibit 7

Companies can gain a competitive edge with a dual focus on people and performance.

Organizational signature, by company type

People and performance winners:
top-tier financial results and human-capital development

Collaborative

Goal oriented

Challenging

Nurturing

Caring

Top down

Encouraging

Performance-driven companies:
top-tier financial results

People-focused companies:
top-tier human-capital development
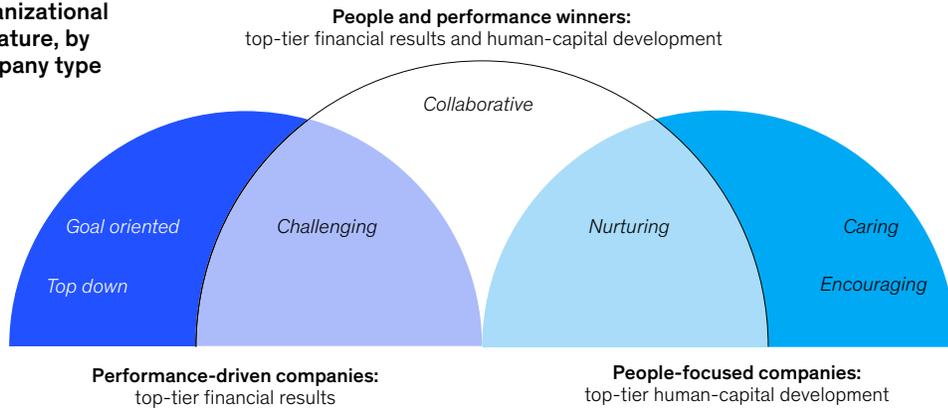
Share of companies in each type, %

21	9	15	55

Typical performers: no clear patterns observed

People and performance winners excel across a range of business outcomes

ROIC, %	Performance vs peers, multiples	Revenue growth during COVID-19 crisis, %	Rate of attrition, %	Economic profit, $ billion
BETTER	BETTER	BETTER	BETTER	BETTER
28 28	4.2×	8	7.9 8.5	1.1
	3.0×	6		
				0.4
9	−1.1× 0	4	13.5	
6	−1.5×	3	13.4	−0.1 −0.1 0
WORSE	WORSE	WORSE	WORSE	WORSE
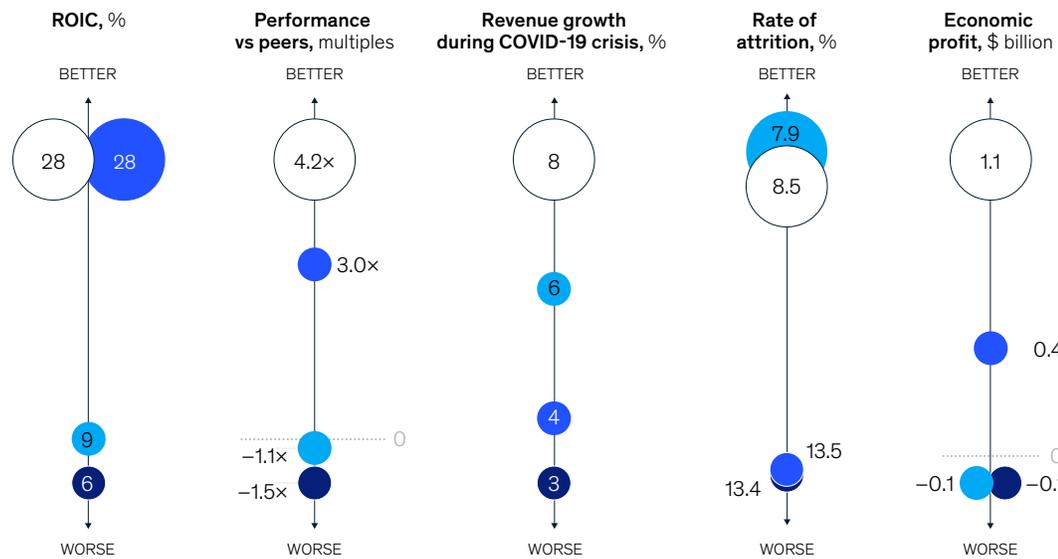
Exhibit 8

Survey respondents say their organizations expect continued workforce turnover in the first half of 2023.

Voluntary employee turnover expected in H1 2023, % of respondents (n = 697)[1]

Don't know	Higher than in H1 2022	About the same as in H1 2022	Lower than in H1 2022
2	38	46	14

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: How much voluntary turnover do you expect over the next year?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May−June 2022

their sectors in ROIC for at least nine out of the ten years between 2010 and 2019.

— *Capability building.* Talent benefits from an organization's people focus too. Skills learned on the job contribute 46 percent of the average person's lifetime earnings, and companies that build human capital are more likely to propel their employees into higher earnings brackets over the course of a career.

Issues to address

The Great Attrition is affecting workers of all levels. All types of employees across all income levels, from managers on the front line to leaders in the C-suite, are leaving their jobs. No role, level, or industry is impervious to the trend. Moreover, expectations are high that it will continue. When asked about expected voluntary attrition over the first half of 2023, almost 40 percent of our survey respondents say they expect the rate at their organization to be higher than that seen in first half of 2022 (Exhibit 8).

The traditional labor market is losing its inevitability
People no longer look at a traditional job as the only possibility for income, as many other opportunities—for instance, to become Uber drivers, Airbnb hosts, and social-media influencers—have emerged. Organizations hiring for traditional jobs now find themselves in competition for talent not only with one another but also with nontraditional types of employment.

There is a disconnect between employers and employees
When we surveyed employers and employees in August 2021, employers said the top reasons that their employees were quitting were that they were looking for better jobs, compensation, and work–life balance. But employees' responses painted a different picture: among the top reasons they gave for quitting were not feeling valued by the organization or by their individual managers and not feeling a sense of belonging at work. The employers were focusing on transactional elements of the work experience while employees were asking for more emphasis on relational factors.

At least some of this disconnect lingers today, our State of Organizations Survey suggests. While work–life balance and compensation are among the top factors affecting the employee experience, employees themselves cite other characteristics that tend to be lower on employers' lists. These include caring leaders, meaningful work, and safe workplace environments.

The lesson here? Even if a company is offering, say, more flexible working time or is reconsidering its pay packages, its inaction in other important relational areas may be creating a lopsided employee experience.

Finding the right formula

Regardless of whether the rate of worker attrition speeds up, slows down, or finds its equilibrium, organizations need to heed the lessons from this unprecedented shift in the labor market and remain focused on creating tailored employee experiences. Organizations can only unlock talent as a competitive advantage if they can better understand what different cohorts of employees want and need.

One size doesn't fit all

Gone are the days when simply focusing on compensation, job title, and financial security was enough to keep most of a workforce satisfied. Leaders need to identify the discrete workforce segments (traditional workers, nontraditional employees, working parents, early-stage employees, late-stage employees, and so on) in their organizations and tailor employee value propositions that are specific to those groups. It isn't about giving people money *or* work–life balance *or* purpose; it's about providing any or all of those things in the proportion that's best suited to a particular segment. Indeed, 40 percent of respondents in the State of Organizations Survey we asked about the topic say their companies are attempting to improve employees' experiences by meeting their individualized needs (Exhibit 9).

The answer may come from the bottom up

To improve workforce retention, some employers are cocreating employee value propositions with their workers. Some of the most striking innovations in this regard have come from business leaders who understand that employees' mood and morale directly affect customers' experiences and, hence, the top and bottom lines. One example is a trucking company whose drivers were leaving in large numbers because they were unhappy about working at inconvenient hours. The company had customers pay more for overnight delivery, with the result that turnover among drivers decreased significantly.[5]

Exhibit 9

To attract and retain employees, companies can consider individualized needs.

Measures implemented to create a better employee experience, % of respondents (n = 697)[1]
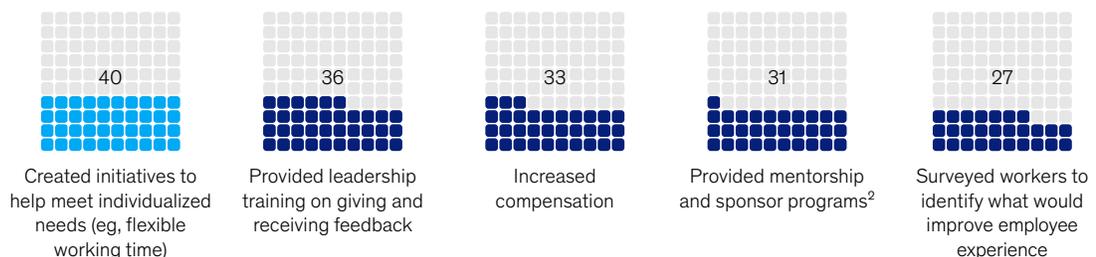
Created initiatives to help meet individualized needs (eg, flexible working time)	Provided leadership training on giving and receiving feedback	Increased compensation	Provided mentorship and sponsor programs[2]	Surveyed workers to identify what would improve employee experience
40	36	33	31	27

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: What measures have you taken to create a better employee experience? Multiple responses were allowed. The response options displayed are the top options selected and represent a sufficient number of responses to be meaningful.
[2]For example, matched new colleagues with coaches and matched identified top talent with sponsors.
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

There is power in purpose

When business leaders don't measure up ethically, morally, or socially, employees are more likely to quit jobs and tell the people in their networks to do the same. And the opposite is also true—an organization's core values and beliefs, as well as the ability of its managers and leaders to inspire and help employees find purpose and meaning in the workplace, are critical factors for attraction and retention. For example, employees who feel more connected with people in their networks are one and a half times more likely than their peers to report being engaged at work, McKinsey research has found.[6]

Employees experience purpose differently—and leadership teams can do more to acknowledge these differences.[7] More than two in five State of Organizations Survey respondents (43 percent) refer to a lack of communication about purpose, and almost one-third (32 percent) say there's insufficient support for living out individual purpose in their organizations. Some 28 percent say purpose and its consequences are inadequately wired into performance management processes.

Gone are the days when simply focusing on **compensation, job title, and financial security** was enough to keep most of a workforce satisfied.

Closing the capability chasm

To achieve a competitive advantage, companies need to build the institutional capabilities that can help them develop a value-creating superpower.

What's changing?

With the growing deployment of new technologies in the workplace, from automation to AI, the skills that are needed to drive growth and value over the next decade are changing, and companies everywhere are looking to fill capability gaps. In our experience, companies across sectors often announce technological or digital elements in their strategies without having the right capabilities already in place. To plug those gaps and achieve a competitive advantage, they need to build *institutional* capabilities.

Institutional capabilities are, put simply, the key elements that make up a company's superpower—that is, an integrated set of people, processes, and technology that creates value by enabling an organization to do something consistently better than competitors do. Institutional capabilities stem from a company's strategy and need to involve work that is integral to the company and its industry. When well produced, such capabilities become a lasting edge, leading to consistent outperformance and growth in competitive advantage over time.[1]

But organizations today find themselves lagging behind in their core activities, often as a result of insufficient resources or consistent commitment to institutional capability building. Filling these gaps is a big agenda, but one that is increasingly recognized as significant. In our State of Organizations Survey, 90 percent of respondents asked about capability building deem it to be something that their organizations need to act on now or soon. Yet only 5 percent feel that their organizations' capabilities are already set (Exhibit 10).

The benefits of getting it right

In a 2020 McKinsey survey of more than 860 executives, 78 percent said capability building was very or extremely important to their organizations' long-term growth (versus 59 percent of leaders who said so before the global COVID-19 pandemic).[2] And more than half of surveyed leaders (53 percent) ranked capability building as the most useful way to close skill gaps—larger than the combined share of those who cited external hiring, redeploying people, and hiring contract workers.

Other McKinsey analysis of 38 publicly listed companies has shown that when companies included more than 30 percent of their workforces in capability-building programs, they enjoyed TSR 43 percent above benchmarks after 18 months. Just as important, the benefits flow both ways: employees are excited to develop valuable new skills and knowledge.

Issues to address

Organizations are having a hard time acquiring employees to fill capability gaps because they often lack the ecosystem-style approach that's needed to make the necessary, and lasting, changes to their capability programs. We aren't talking about just the acclimation of new hires or development of skills in the current workforce but also about the building of new functional and enterprise-wide capabilities. Functional capabilities are core activities that a company does today but may need to change or improve dramatically—for example, sales force effectiveness, procurement, and performance marketing. Enterprise-wide capabilities are strengths that truly span the entire company, such as speed of decision making and the ability to

Exhibit 10

Survey respondents believe that their organizations should make capability building a priority.

Urgency required to address capability gaps, % of respondents (n = 489)[1]

We are already too late	We need to act soon	We need to act now	We are all set
6	43	47	5

Note: Figures do not sum to 100%, because of rounding.
[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: How urgent is the need to address any capability gaps?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

innovate, and they are often "net new" capabilities that a company requires.

In our survey, respondents we asked about capability building cite several obstacles, including not enough time (46 percent), insufficient support from senior leadership (20 percent), and a lack of resources for training and development (20 percent), for their organizations (Exhibit 11).

Among the issues are the following:

— Programs aren't necessarily tailored to specific institutional or individual skill gaps.

— In many organizations, capability-building programs aren't integrated into employees' on-the-job experiences.

— Organizations don't necessarily review their ROI on learning programs regularly, adequately measure desired outcomes, or link training outcomes directly to business outcomes.

Hiring externally and building internally are both options to fill the gap, although both come with challenges and costs. When it comes to acquiring capabilities through hiring, State of Organizations Survey respondents point to insufficient support

Exhibit 11

Organizations lack the time, leadership support, and resources to build new capabilities internally.

Challenges to in-house capability development, % of respondents (n = 489)[1]
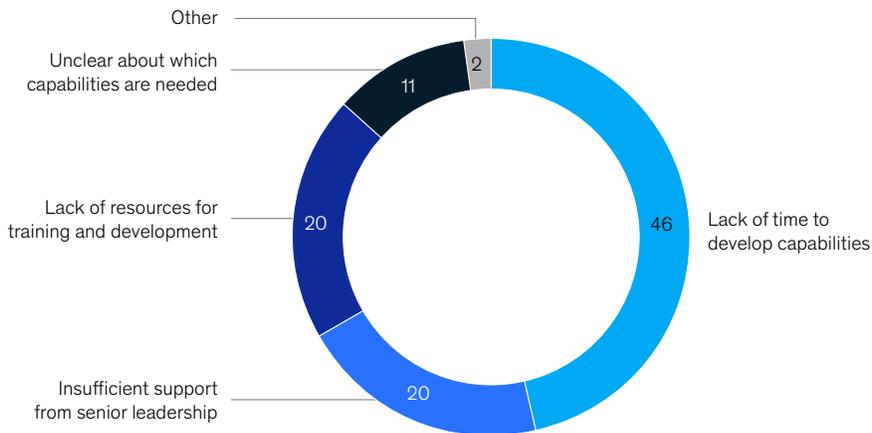
Other
Unclear about which capabilities are needed
Lack of resources for training and development
Insufficient support from senior leadership
Lack of time to develop capabilities

	%
Other	2
Unclear about which capabilities are needed	11
Lack of resources for training and development	20
Insufficient support from senior leadership	20
Lack of time to develop capabilities	46

Note: Figures do not sum to 100%, because of rounding.
[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: Which challenge is most pressing for your organization regarding the development of capabilities within the existing workforce?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

Exhibit 12

Organizations are having a hard time acquiring employees to build new capabilities.

Challenges to acquiring new employees for capability development, % of respondents (n = 489)[1]
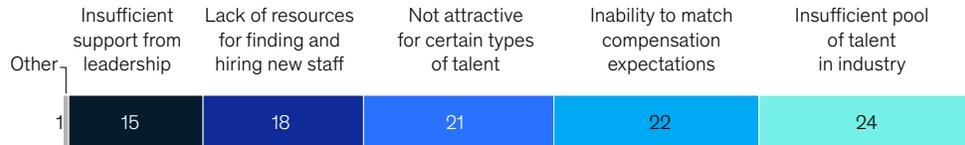
Other	Insufficient support from leadership	Lack of resources for finding and hiring new staff	Not attractive for certain types of talent	Inability to match compensation expectations	Insufficient pool of talent in industry
1	15	18	21	22	24

Note: Figures do not sum to 100%, because of rounding.
[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: Which challenge is most pressing for your organization regarding the acquisition of new employees for capability development?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

from senior leadership and a lack of resources as key obstacles. The top three most frequently cited concerns are a lack of available talent in the industry, an inability to meet compensation requests, and the lack of attractiveness for certain types of talent (Exhibit 12).

Finding the right formula

In trying to fill both individual- and institutional-level capability gaps, companies can use a model that we call "VECTOR" (based on the first letter of each of the six elements—vision and leadership, employees, culture and mindset, technology, organization, and routines—that inform the approach).[3]

Vision and leadership

The most ambitious and successful CEOs outline a vision for what they want to be known for. How will their company shape and innovate the industry? The leadership team must commit to the journey and drive it resolutely, even as the institutional capability evolves and grows.

Employees

Companies should build a full talent system to support the institutional capability. A well-functioning talent system first maps the pivotal roles and skills required for the capability, honestly assessing the existing strengths and gaps. It then efficiently balances new hiring with existing employee reskilling and delivers training throughout the talent life cycle to enhance existing skills and build new ones. Finally, it builds and manages career paths to retain high performers and maintains strong incentive and performance management systems.

Culture and mindset

A mindset shift is often required when building or enhancing a capability. The techniques of change management, from change stories to top-team role modeling, still work. But to make the change stick, in our experience, companies need to commit to the ongoing measurement of culture and inclusion of culture change metrics in top-management incentives.

Technology

In today's world, it's hard to imagine a true institutional capability that doesn't have technology, data, and AI at its core. But these elements are hard to get right: companies often build one-off digital customer journeys or AI models that don't scale, or they rely too heavily on an overhaul of core systems to solve all problems.

Organization

A company's organizational structure and ways of operating must be designed and constructed to provide clear roles, responsibilities, and account-abilities that enable the capability to grow and thrive.

Routines

In filling an institutional capability gap, as in any part of a business, high-quality, well-designed routines are essential. Critically, organizations must practice any new processes with coaching to lock them truly into the organization.

Walking the talent tightrope

With the economic outlook uncertain and the talent pool highly competitive, organizations need to balance protecting the business in the near term with setting it up for long-term success.

What's changing?

WBusiness leaders have long had to walk a talent tightrope—carefully balancing budgets while retaining key people. That tightrope walk is more complicated than ever in a tight labor market affected by industry churn and postpandemic corrections.[1]

As organizations look to protect the business in the near term at the same time as setting it up for success in the long term, one important focus is on ways to match top talent to the highest-value roles. This idea isn't new, but it's the right one at a time when the value contribution of certain roles is increasingly shifting to tech specialists. In our survey, for example, 40 percent of respondents cite a lack of digital analytics capabilities, 32 percent cite lacking software development capabilities, and 26 percent cite a lack of capability in generating customer insights.

The benefits of getting it right

McKinsey research shows that 5 percent of employees deliver 95 percent of an organization's value—and that companies that reallocate high performers to the most critical roles on a quarterly basis are 2.2 times more likely to outperform direct competitors than are those that revisited roles less frequently.[2] Research also shows that the highest performers in a role are 800 percent more productive than average performers in the same role.[3] These high performers can influence the overall productivity of projects and business units, which can affect financial outcomes in turn.

Issues to address

According to McKinsey research, most large organizations derive disproportionate value from just 25 to 50 roles that are scattered across different levels and functions.[4] But many organizations are uncertain about exactly which roles are the most critical, where the high performers are in their organizations, and how to bring these two sides of the equation together. Indeed, 46 percent of State of Organizations Survey respondents who we asked about the roles that are the most critical in creating value in their organizations say they have no, little, or only some clarity on the topic (Exhibit 13).

Respondents cite this lack of clarity and transparency about roles as the most pressing challenge in their quest to understand which skills and roles are the most critical in creating organizational value (Exhibit 14). It's followed by the lack of a talent-development agenda and the lack of awareness about the importance of fostering one.

Aggravating the matter is that about 20 percent of the critical roles that organizations need either don't exist at all or have greatly evolved in scope, according to McKinsey analysis.[5] What's more, our internal analysis suggests that even when organizations put people in the right roles, 40 percent of those people need development or other interventions to be successful.

Finding the right formula

To match people with positions effectively, business leaders need a systematic approach that can consist of setting a value agenda, being a matchmaker,

Exhibit 13

Survey respondents are unclear about which roles are the most critical in value creation.

Clarity about roles most critical in organizational value creation, % of respondents (n = 403)[1]

Not clear	A little clear	Somewhat clear	Mostly clear	Completely clear
2	10	34	34	19

[1]Figures do not sum to 100%, because of rounding. All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: How transparent are the critical roles in your organization?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

reallocating talent early and often, and making talent mapping a leadership priority.

Set a value agenda
Business leaders need to define their organization's value agenda explicitly. Which business units generate the most value, and which the least? Which roles, both existing and projected, are required to make those outcomes possible? With answers to those and other value-related questions in hand, it should be possible to identify the most critical organizational roles, which can be further broken

down into value creators (directly generate revenue and increase capital efficiencies) and value enablers (lead support functions).[6]

Be a matchmaker
Once the value agenda has been set and the critical roles identified, leaders need to match top talent to those roles. Yet McKinsey research shows that, in many organizations, between 20 and 30 percent of critical roles aren't filled by the most appropriate people and that current incumbents may not be the people best suited to meet the future demands

Exhibit 14

Survey respondents cite several challenges to identifying the most critical talent and roles in their organizations.

Challenges to identifying talent and roles most critical in organization, % of respondents (n = 403)[1]
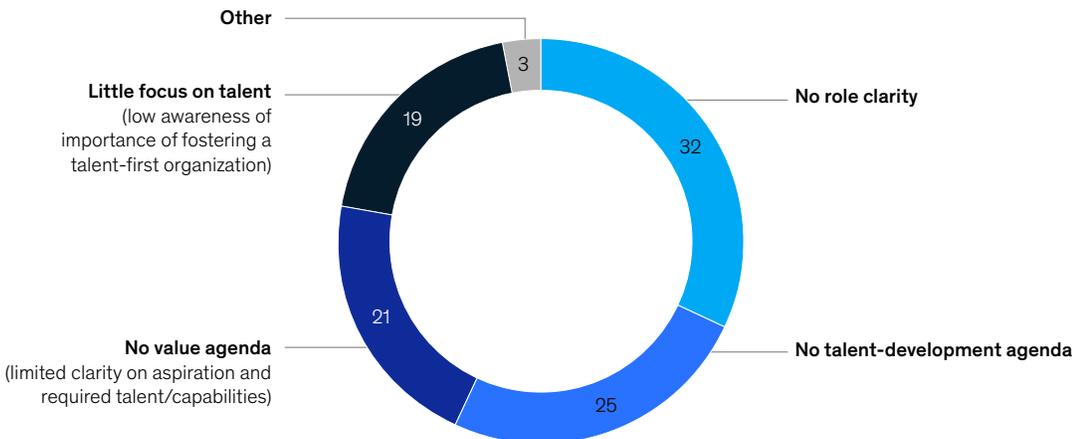
Other — 3
Little focus on talent (low awareness of importance of fostering a talent-first organization) — 19
No value agenda (limited clarity on aspiration and required talent/capabilities) — 21
No role clarity — 32
No talent-development agenda — 25

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: What is the most pressing challenge to identifying critical talent and roles in your organization?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

of their roles.[7] It can be helpful for matchmaking business leaders to think differently about role structures, talent profiles, and performance metrics:

— *Reconsider role structure.* With more employees considering whether traditional working models fit their needs and pursuing increased flexibility, business leaders should think about how their most critical roles are structured.

— *Create success profiles.* Organizations should define what "great" looks like for their highest-value roles. With a checklist of the knowledge, skills, attributes, and experiences required for success in those positions in hand, business leaders can look beyond the usual suspects and customize their searches accordingly.[8]

— *Use available metrics.* To create the best matches, business leaders should use any and all performance data available to them, taking care to keep the specifics of the high-value position in mind while gathering and assessing those metrics.

Reallocate talent early and often

The changing nature of work and the constant introduction of new skills and capabilities required for a range of future scenarios mean that organizations must regularly review talent distribution. At quarterly or semiannual check-ins, senior leaders can evaluate the needs for potential reassignments and for investment in upskilling and capability-building opportunities.

Make talent mapping a leadership priority

McKinsey research shows that when HR processes are aligned with a business's talent-to-value efforts, employee engagement can go up by 50 percent, training costs can go down by 50 percent, and productivity can increase by 40 percent.[9] For example, HR and product development teams at one technology company codesigned and deployed training to support the company's new cloud-based strategy. Within two years, the teams had reskilled more than 6,000 employees to new roles and upskilled 20,000 employees in their current roles.

Leadership that is self-aware and inspiring

Organizations can only be as resilient as their leaders, who need to lead themselves as well as their teams.

What's changing? In today's turbulent environment, leaders may be tempted to stick with the approaches that have worked for them in the past—regardless of whether they are still fit for purpose—rather than rethinking and changing the way they lead.[1] But the costs of leaders remaining in the familiar zone can be high.

Those who do so run the risk of alienating key stakeholders who now expect organizations to be accountable for both profit and sustainability objectives, as well as employees who may feel demotivated, overwhelmed, or otherwise unable to bring their best to the workplace.[2] Only 25 percent of respondents in the State of Organizations Survey who we asked about this trend say they consider their leadership culture to be one that inspires employees to the best extent possible (Exhibit 15).

For today's leaders, the essential task comes in three layers: they need to be able to lead themselves, they need to be able to lead a team of peers in the C-suite, and they need to be able to exhibit the leadership skills and mindset required to lead at scale, coordinating and inspiring networks of teams and ensuring that their organization functions as a cohesive whole.

That's a big ask of any single human. For any leader, it requires building a keen awareness both of themselves and of the operating environments around them.[3]

The benefits of getting it right

A body of McKinsey research highlights the critical importance to stakeholders and employees of inspiring leadership. Many of the metrics about top leadership inevitably focus on the CEO, but the entire C-suite team is critical to success.

From a pure value creation standpoint, McKinsey estimates that $5 trillion in excess value is created by the 200 highest-performing CEOs.[4] Those in the top quintile of performance generate about 90 percent of their industry's value and 30 times more value than the middle three quintiles combined do.

Moreover, CEOs who rank in that top 20 percent of financial performance generate, on average, 2.8 times more TSR during each year of their tenure than do average performers. The CEO role is decisive: what a CEO controls accounts for 45 percent of a company's performance.[5] And a CEO's ability to scale leadership throughout an organization—that is, affecting people's immediate bosses and how they lead others—is an important facilitator or blocker for employee experience.

Exhibit 15

Only one-quarter of survey respondents see their leaders as inspirational and fit for purpose.
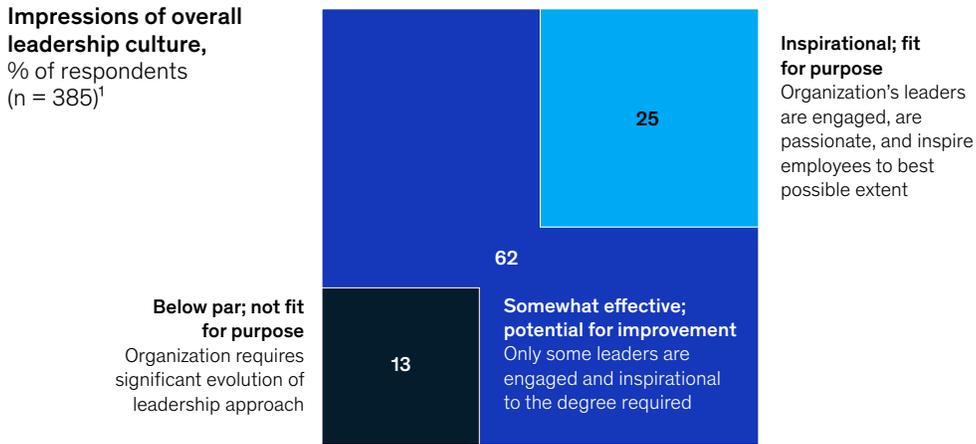
Impressions of overall
leadership culture,
% of respondents
(n = 385)[1]

Inspirational; fit for purpose
Organization's leaders are engaged, are passionate, and inspire employees to best possible extent

25

62

Below par; not fit for purpose
Organization requires significant evolution of leadership approach

13

Somewhat effective; potential for improvement
Only some leaders are engaged and inspirational to the degree required

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: How do you evaluate the overall leadership culture in your organization?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

Issues to address

Our research and experience in the field show that very few companies take a holistic approach to leadership. When we asked a subset of State of Organizations Survey respondents which elements of leadership would be most important for their organizations, role modeling (focusing on building respect and considering the ethical consequences of decisions) came out on top with 46 percent, followed by inspiring others (presenting a compelling vision of the future and inspiring optimism about its implementation) with 37 percent and developing people (spending time teaching, mentoring, and listening to individual needs and concerns) with 35 percent (Exhibit 16).

Survey respondents point to several obstacles that have prevented their organizations from switching up their leadership styles. Chief among them is a lack of incentive (both financial and nonfinancial) to change, followed by short-term thinking and strategy and a lack of training (Exhibit 17).

Some organizations are taking measures to break through these barriers and improve their leadership. For instance, almost 40 percent of respondents asked about the topic say their

Leaders faced with volatility and uncertainty will **benefit from building a keen awareness of themselves** and of the operating environment around them.

organizations have made development a core part of leaders' daily work, and almost 30 percent say their organizations have made leadership training more accessible to more employees. Most encouraging is that more than half (55 percent) say their organizations have invested in leadership development to foster greater adaptability and resilience—for instance, by implementing new forms of leadership training and changing requirements for leadership selection (Exhibit 18).

Finding the right formula

Leaders faced with volatility and uncertainty will benefit from building a keen awareness of themselves and of the operating environment around them. Leading yourself, leading others, and leading at scale are the new watchwords for inspiring leadership.

Leading yourself

It's becoming increasingly important for organizations to encourage well-being, connection, and authenticity in the workplace, and leaders need to set the tone in this regard. Individual leaders will need the courage and humility to embark on what we call a "leader self-journey." It starts with leaders building self-awareness of their own strengths and default tendencies, especially under stress, and identifying strategies to manage through their fears and limitations. With this self-awareness, leaders will be better equipped to tap into their passions, renew their energy, and help others achieve their full potential—and that of their organizations.[6]

Leading a team

As organizations trade hierarchical command models for more collaboration, there is a

Exhibit 16

Respondents value human-centered aspects of leadership.

Most important elements of leadership culture, % of respondents (n = 385)[1]

46
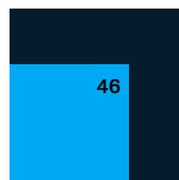
1. Role modeling: being a role model, focusing on building respect, and considering ethical consequences of decisions

37
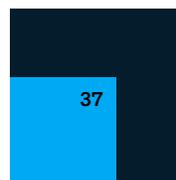
2. Inspiring others: presenting a compelling vision of the future and inspiring optimism about its implementation

35
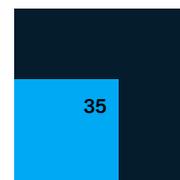
3. Developing people: spending time teaching, mentoring, and listening to individual needs and concerns

32
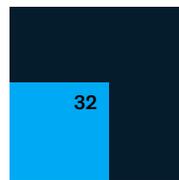
4. Setting expectations: defining responsibilities clearly and rewarding achievement of targets

28
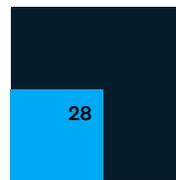
5. Fostering team discussions: building a team atmosphere in which everyone is encouraged to participate in decision making

27
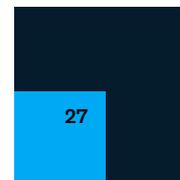
6. Communicating efficiently: communicating in a convincing and charismatic way

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: Which shifts in leadership culture would be most important for your organization? Multiple responses were allowed. The response options displayed are the top options selected and represent a sufficient number of responses to be meaningful.
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

Exhibit 17

Respondents say a range of challenges can prevent a change in leadership styles in organizations.

Factors preventing leadership style changes in organizations, % of respondents (n = 335)[1]
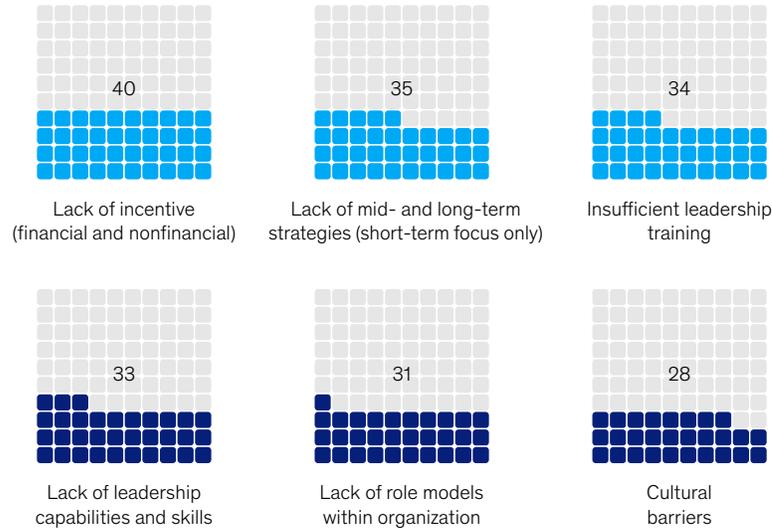
|		
40	35	34
Lack of incentive (financial and nonfinancial)	Lack of mid- and long-term strategies (short-term focus only)	Insufficient leadership training
33	31	28
Lack of leadership capabilities and skills	Lack of role models within organization	Cultural barriers

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: Which challenges do you see preventing a change in leadership style for your organization? Multiple responses were allowed.
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

Among the **key elements of leading at scale** are the need to execute work differently and redesign how value is created.

role for the leader as an orchestrator who defines organizational structures, roles, and responsibilities. The leader will need to serve as a catalyst for empowering networks of teams and encouraging transparency, collaboration, and inclusiveness across the organization and its ecosystems. In practice, leaders and organizations will need to break down rigid organizational silos and introduce open, transparent, collaborative networks. They will need to put greater emphasis on teams than on individuals—by creating and empowering small, entrepreneurial squads, for instance—and establish psychologically safe conditions in which all team members can contribute to their full potential.

Leading at scale
Among the key elements of leading at scale are the need to execute work differently and redesign how value is created.

Exhibit 18

Respondents say their organizations are taking steps to improve their leadership cultures.

Measures implemented to improve leadership culture, % of respondents (n = 335)[1]

55	39	27	12
Invested in leadership development to foster adaptability and resilience[2]	Made development part of leaders' daily work	Went beyond one-off trainings and made leadership development easily accessible to more employees	No measures have been taken

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: Which challenges do you see preventing a change in leadership style for your organization? Multiple responses were allowed.
[2]For example, through training and specific selection processes.
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

For execution, organizations need to foster an environment in which teams are working on multiple initiatives in parallel—all with a mindset of discovery. The leader's perspective here changes from that of a controller who operates through detailed analysis and planning to that of a coach who operates through short cycles of quick decision making, experimentation, and learning. Under this form of leadership, an organization can better respond to challenges and uncover opportunities. It can stop experiments that underperform and scale up those that are thriving.

To redesign how value is created, the leader's perspective needs to move beyond being a manager who ensures that profits are predictably delivered to shareholders to one who is a visionary and can engage people to deliver impact and value to all stakeholders through a compelling purpose. McKinsey research shows that employees at purpose-driven companies are four times more engaged at work—a powerful source of competitive advantage.[7]

Making meaningful progress on diversity, equity, and inclusion

Driving change in DEI goes far beyond launching DEI initiatives.

What's changing? Over the past several years, more and more organizations have prioritized DEI in their organizations, including in their product, process, and investment decisions and in the ways that they hire, retain, and develop talent.[1] And despite recent economic challenges and resource constraints, most remain committed to these efforts.

Almost half of survey respondents we asked about the topic say their organizations have focused on strengthening their leadership DEI efforts and holding leaders accountable for delivering on DEI goals (Exhibit 19). Forty-three percent say their organizations have focused on creating more transparency in promotions and pay processes. And 43 percent say their organizations have taken measures to tackle bias and discrimination in the workplace.

In many cases, however, these initiatives aren't translating into meaningful progress. The survey results reveal a gap between what organizations say they want to do with DEI and what they are actually doing. While there has been some progress on diversity initiatives, equity and inclusion ones continue to lag behind.[2]

Even relatively diverse companies face significant challenges in creating inclusive and equitable work environments. McKinsey research shows that more than 70 percent of companies surveyed express transformative DEI aspirations, but less than half (47 percent) have the infrastructure in place to realize these aspirations.[3] And more than 20 percent of State of Organizations Survey respondents we asked about the topic can't confirm that there is a sense of community and inclusion in their organizations. This percentage may be even higher: a lack of community in organizations is typically experienced most by employees in underrepresented groups, who also tend to be underrepresented in survey responses.

## The benefits of getting it right

When measured and applied comprehensively, healthy organizational DEI becomes a competitive advantage. For example, McKinsey research shows that companies with executive teams in the top quartile for ethnic diversity are more profitable than companies with teams in the bottom quartile by 36 percent.[4] Companies that boast executive teams in the top quartile for gender diversity are 25 percent more likely to outperform the industry profitability average than are those with teams in the bottom quartile. The extent to which diversity is driving this outperformance isn't clearly measurable, however.

Furthermore, there is evidence that organizational DEI can help companies win talent and unlock the full potential of a diverse workforce. For example,

Exhibit 19

Respondents say their organizations are taking steps to boost diversity, equity, and inclusion.

Measures taken to improve diversity, equity, and inclusion (DEI), % of respondents (n = 369)[1]

Strengthened leadership efforts and accountability for delivering on DEI goals	Enabled equality of opportunity through fairness and transparency	Promoted openness; tackled bias and discrimination	Increased diverse representation, particularly in leadership and critical roles	Fostered belonging through support for various dimensions of diversity	No measures have been taken
49	43	43	39	32	8

| *Placed core business leaders at heart of diversity efforts and held them accountable* | *Used analytics to ensure transparency in promotion and pay processes* | *Adopted a zero-tolerance policy on discrimination; established norms for inclusive, welcoming behavior* | *Promoted diverse talent into executive, management, technical, and board roles* | *Built a culture in which all employees feel they can bring their whole selves to work* | |

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: What measures have you taken to improve diversity, equity, and inclusion in your organization?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

39 percent of respondents to a McKinsey Global Survey have turned down a job opportunity because of a perceived lack of inclusion, and employees who work in an inclusive organization are 90 percent more likely than those who don't to go out of their way to help a colleague.[5]

Issues to address
Organizations tell us that they still face significant challenges, including the following, in implementing and sustaining their DEI initiatives:

— *Not being strategic about DEI.* Rather than developing a DEI strategy and tying it to the entire organization, they apply the programs in piecemeal fashion or through singular initiatives.[6]

— *Unclear criteria for DEI impact.* What does success with DEI look like? How can companies measure their DEI initiatives to allow them to track progress and make improvements, both internally and in the community more broadly?

— *Not walking the talk.* Almost one-third of State of Organizations Survey respondents we asked about the topic note that their organizations' hiring processes impede their ability to achieve DEI goals. Another 30 percent report insufficient resources to implement DEI initiatives, and 25 percent report a lack of a clear, compelling case for change.

— *Inadequate organizational support and recognition for DEI efforts.* Some 40 percent of surveyed women leaders, for instance, say their DEI work isn't acknowledged in their performance reviews.[7] This is despite almost 70 percent of organizations saying DEI work is very or extremely critical.

Finding the right formula
To move the needle with DEI programs and practices and sustain their impact, organizations must look at the whole of these initiatives—not just at their efforts to build diversity but also at their

commitments to create equitable workplaces in which employees feel like they belong. Leaders must ensure that their organizations embrace all employees and empower them to make meaningful contributions.

One path forward is for leaders to be more systematic early in strategy development, considering the objectives and desired level of impact from their programs. To realize DEI aspirations, leaders will need to identify opportunities to make progress both in their organizations and in their communities and broader society (Exhibit 20).[8]

Achieving internal impact
Measuring and acting on an organization's inclusion goals are critical elements for achieving internal impact. Based on our research, inclusion can be reliably measured along two dimensions: personal experience and enterprise perception.

Measuring and acting on an organization's inclusion goals are **critical elements for achieving internal impact.**

Exhibit 20

Whether internally or externally focused, diversity, equity, and inclusion initiatives can be placed on a spectrum of impact.

Opportunities for diversity, equity, and inclusion (DEI) impact

	Diverse organization	Inclusive environment	Equitable access to opportunities and benefits
Internal Focused on improving organization	Ensures that diverse identities are represented at each level of organization	Ensures that employees of all identities feel a sense of belonging and ability to contribute to their fullest	Ensures that all employees have opportunities to grow, contribute, and develop
	Corporate and social responsibility	**Business operations**	**Core business and strategy**
External Focused on improving community or society	Deploys philanthropy to address institutional and structural disparities; takes public stances on issues of equity	Explicitly designs operations and investment processes to improve DEI outcomes and minimize negative downstream effects	Embeds equity considerations in all levels of strategy development; makes explicit, DEI-informed changes to core market and product decisions

Impact

Lower ←————————————————————→ Higher

One path forward is for **leaders to be more systematic early in strategy development,** considering the objectives and desired level of impact from their programs.

The first dimension captures individuals' personal experience. Are they encouraged to be authentic and speak up at work? Are they connected at work, and do they feel like they belong? Do they feel that their work is meaningful and contributes to the success of the organization? The second dimension captures employees' perceptions of how accepting, connected, and fair the full enterprise is. A look at performance along both dimensions can highlight gaps or potential discrepancies in employees' experiences and help organizations think more equitably about how, when, and where work gets done.

Achieving external impact

To achieve the highest external impact from DEI initiatives, leaders will need to assess DEI opportunities systematically in three key areas: philanthropy, operations, and core business strategy. Based on this review, they can invest in DEI programs and practices in one, some, or all these areas, depending on how closely linked each one is to their business strategies. In this way, leaders can also gain senior managers' commitment to DEI as a multiyear endeavor and ensure that it remains a focus for the organization, regardless of the business cycle. The three key areas are:

— *Philanthropy.* Organizations' external DEI efforts have traditionally focused on philanthropy. Often led by corporate-giving and communications teams, organizations make donations and grants to help address structural and institutional obstacles to change, coordinate employee volunteering, and speak out on issues of equity.

— *Operations.* Organizations can redesign internal processes and reconfigure relationships with suppliers and other downstream partners to improve DEI. US companies have committed more than $50 billion to collaborating with minority- and women-owned businesses in the next ten years to secure more diversity among their suppliers.[9]

— *Core business strategy.* Business unit and senior leaders across an organization can work together to embed DEI into everything a business does: brand and customer management, product development, talent management, M&A, and so on.

Forging an overarching strategy

To bring external and internal DEI initiatives together into one overarching strategy, organizations must set a vision, create an action plan, and hold leaders accountable for DEI objectives and outcomes.

Setting a DEI vision will require making an honest assessment of how diverse, equitable, and inclusive an organization is currently and how much further it needs to travel. A mix of DEI, HR, and business leaders should own this process. C-suite leaders, business unit managers, functional managers, and others across the organization will need to define the vision for DEI in the workplace and set clear aspirations and goals for achieving that vision.

Leaders won't be able to act on all DEI initiatives at once, so they should develop an action plan

that prioritizes the programs based on ease of implementation and level of impact. Setting up some pilot projects in specific business units or teams can help executives decide what works and what needs adjustment before the DEI initiative can be introduced in other parts of the organization.

Respondents in our State of Organizations Survey note the importance of placing core business leaders and managers at the heart of DEI efforts and sharing accountability beyond just the HR function or employee-resource-group leaders. It's up to everyone—the CEO and other C-suite leaders included—to ensure that managers understand what's expected of them, that managers have what they need to achieve DEI goals, and that managers take responsibility for delivering results.

Mental health: Investing in a portfolio of interventions

Employee mental health is becoming a C-suite issue.

What's changing?
In a McKinsey Health Institute Global Survey on Mental Health and Well-being, almost 60 percent of respondents say they have experienced at least one mental-health challenge at some point in their lives—a figure consistent with other global research.[1] This trend holds true regardless of country, industry, age group, role, or gender. The message is clear: most employees are directly or indirectly affected by mental-health-related challenges, and they can't be treated in isolation from the workforce or excluded altogether; they are the workforce.[2]

Four of five HR leaders around the world report that mental health and well-being are now top priorities for their organizations.[3] And despite concerns by some about a potential rise in "well-being washing," estimates show that nine of ten organizations are offering some form of structured wellness programs to employees, incorporating benefits such as yoga classes, mindfulness and time management workshops, paid subscriptions to meditation apps, and extra days off work for mental healthcare.[4]

However, many workers continue to feel overwhelmed. Our research and experience in the field suggest that this may be because their organizations, with the best of intentions, have focused on launching interventions that remediate symptoms of mental distress rather than on addressing root causes of poor mental health and well-being among employees.[5] Since the problem is systemwide, we encourage employers to invest in systemic interventions that are developed and managed with the same rigor and strategic thinking as for other corporate initiatives.

The benefits of getting it right
Apart from the obvious moral imperative for organizations to provide both preventive and acute support for employees' mental health and well-being, there is a compelling business case. The benefits of getting it right can be a source of sustainable competitive advantage over time.

The World Health Organization estimates that 12 billion working days are lost annually around the world to depression and anxiety, at a cost of $1 trillion per year in lost productivity.[6] Other research has found that employees who have endured at least one mental-health challenge report worse employee experiences—in some cases, experiencing promotion discrimination—than peers with no mental-health challenge do and were four times more likely to want to leave their organizations.[7]

Benefits to employers of investing in mental health and well-being are seen in improved retention, attraction, and productivity. For example,

employees surveyed as part of McKinsey's Great Attrition research say the level of support that organizations offer for mental health and well-being is a top factor in their decision to leave or stay.[8]

In addition, a growing body of evidence supports a causal link between overall health and well-being and productivity. In 2019, a UK study of 1,793 BT telesales workers showed a causal link between happiness and productivity, with three additional sales per week (a 12 percent increase) per unit increase in employee happiness.[9]

Issues to address

Many workers continue to feel overwhelmed. Our research and experience in the field suggest that this may be because their organizations, with the best of intentions, have focused on launching interventions that remediate symptoms of mental distress rather than on addressing the root causes of poor mental health and well-being among employees.[10]

Employees say the level of **support that organizations offer for mental health and well-being is a top factor** in their decision to leave or stay.

Based on the McKinsey Health Institute scan of employers' public declarations regarding mental health and well-being, it appears that many are focusing their investments on addressing the effects of poor mental health on individuals. There is no doubt that this is important. Because most employees are likely to experience at least some symptoms of poor mental health and well-being at some point during their working years, the type of support that they may need will fluctuate (Exhibit 21).[11]

Finding the right formula

In the search for best organizational practices, we examined some successful programs covering mental health and well-being at dozens of global companies. No single company has "cracked the code" on employee mental health and well-being, but their actions point to some early lessons for others.

### Use data to baseline and track progress, and engage influencers

It's critical for organizations to know their starting points so that they can understand where to focus their efforts and how to track progress over time. Some companies leverage data and influencers to do that. For instance, the mobile-banking company Monzo analyzed employee survey data to design, test, and refine a range of mental-health interventions tailored to its workforce.[12] The portfolio of solutions included policy changes to create more workplace flexibility, tools to promote mindfulness and physical activity, and access to therapy and counseling. The company also established a private Slack channel with wellness workflows and trained and empowered a team of more than 85 mental-health first aiders to help connect employees with the right resources and role-model desired behaviors.

Take the long view

Implementing successful mental-health and well-being programs requires a long-term outlook by company leaders. For instance, leadership involvement is a core success factor in mental-health and well-being initiatives at one digital communications company. Its managers are required to have one-on-one meetings with employees every week, with 10 percent of the time earmarked for nonwork topics, including well-being.

Exhibit 21

The state of employees' mental health and well-being exists along a continuum, from languishing to flourishing.

Mental-health continuum, share of respondents (n = 14,409)

FLOURISHING ◄───► LANGUISHING

*Individuals move back and forth along continuum
over course of lives*
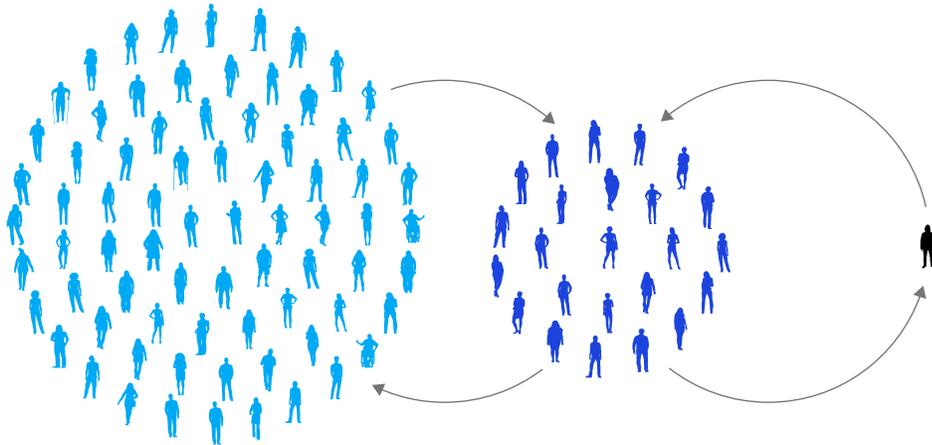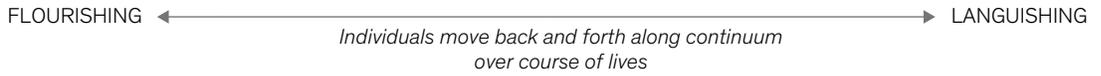
~75

of every 100 employees require supports that foster good mental health

~24

of every 100 employees require supports for moderate mental-health needs

~1

of every 100 employees may need intense mental-health services or treatment

Employer mental-health intervention[1] examples, by level

- Stress management/resilience training
- Physical-wellness programs
- Programs to boost office community/connectivity
- Policies to reduce burnout

- Benefits for psychotherapy/ counseling at parity with physical-health benefits
- Peer support programs/employee resource groups

- Coverage for residential treatment/medication for opioid use disorder
- Support for employees returning from disability leave taken for mental health
- Crisis supports (eg, hotline)

Note: Estimates are based on historical claims data; all are directional, may differ over time, and may vary by employer. Numbers are not attributable to any single employer.
[1]Employer-provided mental-health supports designed to promote employees' mental health; include benefits (eg, health-insurance coverage, employee assistance programs), programs (eg, training, resource groups), and policies (eg, flexible work schedule).
Source: McKinsey Health Institute 2022 Employee Mental Health and Well-Being Survey, ~15,000 employees across 15 countries, February–April 2022

Through these and other efforts, the company has been able to keep the employee attrition rate low (compared with the industry average) and to rank at or near the top of public lists of the best places to work for parents, women, and people interested in diversity initiatives, among others.

Pick one or two areas of focus
McKinsey Health Institute research finds that eight workplace factors play an important role in driving mental-health and work-related outcomes: toxic workplace behavior, sustainable work, inclusivity and belonging, supportive growth environment, freedom from stigma, organizational commitment, leadership accountability, and access to resources.[13] Choosing to focus on a particular mental-health dimension as part of a wider strategy has proven beneficial for organizations.

Efficiency reloaded

Efficiency is back at the top of the company agenda, with a reinvigorated mandate to create more efficient organizations that place resources where they matter most.

What's changing?
In today's uncertain business landscape, the mismatch between existing operating models and market realities is more visible than ever. With profitability levels often being challenged in the past three years, the room for tolerance and the margin for error has become a lot slimmer. Companies are therefore refocusing their attention on efficiency measures: more than one-third of leaders who participated in our State of Organizations Survey list efficiency as one of their top three organizational priorities for the coming years.

Much work lies ahead. For many organizations, SG&A expense levels are often in excess of 20 percent. In many cases, more than half of all direct reports to a CEO don't have profit-and-loss responsibility, and there can be as many as 12 layers between the CEO and the front line.

What's more, many organizations have become bloated, with endless meetings and incessant emails among the unnecessary interactions. While the general perception is that organizations are punching below their weight, despite their high resourcing levels, not many organizations have successfully addressed the challenges at hand. Getting this right is both about fixing the foundations of how work gets done and taking a leap ahead, especially around placing freedom of decision rights back into employee's hands.

The benefits of getting it right
Organizational inefficiencies can be magnified when times are tough. But boosting efficiency is about more than managing immediate crises or getting the same amount of work done with fewer resources. Getting it right offers substantial benefits, including improved organizational health, higher shareholder returns, and making better and faster decisions. Deploying resources more effectively to where they matter the most promises positive effects for both the top and bottom lines.

First, fixing organizational foundations that prevent an efficient set-up promises significant returns. This pertains to the clarity of roles and responsibilities as well as to structural complexities around spans and layers. McKinsey has consistently found that improving role clarity improves accountability, an outcome that is a critical component of the Organizational Health Index score.[1] In fact, organizations with high accountability scores have a 76 percent probability of achieving top-quartile organizational health—more than triple the expected rate. What's more, the independent effects of role clarity are so powerful that they affect Organizational Health Index scores directly, being one of only four management practices (among 37) that do so.

In addition, there is a huge value in simplifying structural complexities around spans and layers. Reducing the number of layers reduces the time that a decision takes to travel from the top leaders to the front line, and increasing the span of control secures a flat hierarchy and empowers managers. Both are key to empowering an organization to act swiftly.

Second, companies that frequently and actively reallo-cate resources from where they create little value to more strategic areas deliver higher TSR. With an external environment that is changing rapidly, companies need to be more agile in placing resources where they matter the most. This is true not only for financial resources but also for talent. McKinsey research shows that companies that regularly reallocate resources deliver, on average, a TSR that is four percentage points higher than the total return of those that don't.[2]

Third, companies need to shift their paradigm on decision making. Many people wonder why it's so difficult to get things done in business today, despite seemingly endless meetings and emails. Why does it take so long to make decisions—and then not necessarily the right ones? With today's opportunities to connect and exchange, be it through email, Slack, or various videoconferencing systems, a myriad of inefficient and often unneeded interactions have been created. McKinsey research shows, for example, that decision making takes up a huge proportion of managers' time—as much as 70 percent of it for some C-suite executives.[3] The opportunity costs are staggering. For the average Fortune 500 company, they typically equal more than half a million days of managers' time, or $250 million a year in salaries.[4] To address this opportunity, companies need to get comfortable with a new decision framework that empowers individuals to make a final decision rather than group votes.

Issues to address

In our experience, when senior leaders try to simplify their organizations to increase productivity and effectiveness, they bump up against a variety of issues. Respondents to the State of Organizations Survey point to seven root causes of inefficiency in their organizations (Exhibit 22).

Organizational foundations

Today's organizations often are plagued by overly complex structures with too many layers and too narrow a span of controls, which lead to inefficiency, our survey reveals. More than 40 percent of respondents say their organizational structures are simply too complex and affect their businesses significantly.

Complexity is often paired with unclear roles and responsibilities, leading to confusion, slow decision making, and duplication.[5] In our survey, 40 percent of respondents attribute inefficiencies to this lack of clarity. In the worst case, this is leading to redundant activities that unwittingly encourage rework situations in which one or more colleagues within an organization or across multiple organizations duplicate some tasks and drop the ball on others.

This negative effect on efficiency is often intensified on an organizational level if an organization's governance model is unwieldy—for example, with committees that don't necessarily involve the most relevant stakeholders. All of this is aggravated by unclear processes and unfamiliarity with how work flows through an organization.

Inefficient and excessive interactions

Many organizations are plagued by excessive interactions and a need to include too many people in decision making, often triggered by overly matrixed organizational design with a high division of labor and decision making. A large number of meetings is one of the symptoms. Our research shows that CEOs spent 72 percent of their time, on average, in meetings and committees. Yet managers often wonder why they are in a meeting and what value they can contribute.

Exhibit 22

Survey respondents point to seven root causes of organizational inefficiency.

Root causes for lack of simplicity within organizations, % of respondents (n = 461)[1]
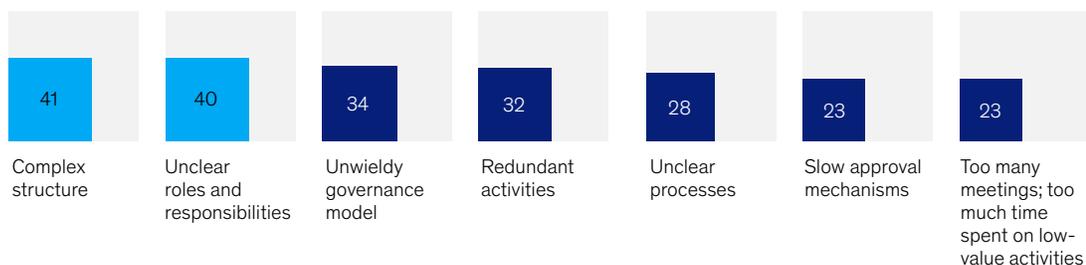
Complex structure	Unclear roles and responsibilities	Unwieldy governance model	Redundant activities	Unclear processes	Slow approval mechanisms	Too many meetings; too much time spent on low-value activities
41	40	34	32	28	23	23

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: What are the root causes for a lack of simplicity in your organization? Multiple answers were allowed.
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

Exhibit 23

Survey respondents say they don't have enough resources to increase organizational efficiency.

Challenges to increasing efficiency in organizations, % of respondents (n = 838)[1]

41	39	37	31	22
Insufficient resources to drive effort	Organizational resistance	Limited capacity and capabilities of HR team	Unclear number and priority of opportunities	Lack of buy-in from senior managers

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: What challenges do you see in increasing the efficiency of your organization? The response options displayed are the top options selected and represent a sufficient number of responses to be meaningful.
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

Organizations around the world are scrambling to address the issue. Netflix, for example, has launched a redesign effort to reduce meetings drastically, resulting in, among other things, a time limit of 30 minutes. Shopify has implemented "no meeting Wednesdays." In some of these cases, the amount of time spent in meetings was reduced by two-thirds, with more than 80 percent of employees favoring the approach. Making meetings a scarcer resource has proven to be an effective strategy.

Obstacles to addressing inefficiencies

Respondents to the State of Organizations Survey highlight a range of obstacles that they continue to encounter as they try to tackle the inefficiencies in organizational foundations and inefficient interactions (Exhibit 23). Organizational resistance and lack of buy-in from senior managers can feature among the obstacles arising from structures and procedures, whereas insufficient resources and limited HR capabilities are more day-to-day blockers.

Finding the right formula

Where to start? Based on hundreds of organizational transformations, we see some consistent principles for the journey to greater efficiency:

— *Set a bold efficiency aspiration.* Don't be afraid to embrace radical change right out of the gate. Slow and steady doesn't always win the race. In fact, when making and sustaining SG&A cost reductions, incremental change can be a recipe for failure.

— *Empower your organization.* Being efficient often means placing more trust in your organization and empowering your people to make decisions and execute against them.

— *Identify your organizational impediments.* Don't just scratch the surface. Identify the root causes of your organization's inefficiencies and define concrete measures aimed at addressing them.

— *Role model efficiency from the top.* All organizational transformation efforts need to be supported at all levels of an organization, with backing by the organization's CEO and others in the C-suite first and foremost. Their active involvement and role modeling—for example, by streamlining governance committees—is needed.

— *Ensure that the new-found efficiency sticks.* Rigorously track the program's impact to ensure that value is consistently captured and deviations from the plan are flagged early in the process. Tracking change impact and acting upon the data (for example, the number of organizational layers and spans of control) should be anchored in an organization's ways of working and supported by a dedicated transformation team.

2 | Lessons from leaders

How CEOs and their leadership teams respond to the ten organizational shifts described in the previous chapter will play a large role in determining whether their companies thrive in the years ahead.

There is no blueprint for success. Instead, we look to organizations that serve as beacons of inspiration to show us possible paths forward.

This chapter shines a light on exceptional leaders and organizations embracing both the challenges and opportunities presented by these ten shifts. While this is by no means a comprehensive list, the companies on it represent diverse industries and geographies, and they share common threads: an unwavering commitment to their people and the ability to transform in the face of disruption.

The interviews shared here are ordered by the number of employees in each company, from most to least.[1]

Listen with your head and heart: How Mars anchors on principles and people

Poul Weihrauch, CEO of Mars, Incorporated, on prioritizing what matters and preparing for the challenges of tomorrow.

With more than 140,000 associates across 80 countries, Mars is one of the largest privately owned businesses in the world. A global leader in pet care, confectionery, and food, the company attributes much of its success to its enduring principles and forward-looking purpose: "The world we want tomorrow starts with how we do business today." We spoke with CEO Poul Weihrauch about his commitment to the company's people, principles, and purpose—and what executives need to get right to compete in an increasingly volatile world.

What are the key ingredients to Mars's success?

I would say three main things: our focus on people, our Five Principles, and both the freedom and willingness to transform. We have always been 100 percent committed to all our people—from line managers to top executives—and their development. We call them associates, not employees, as the relationship is of a higher order. Since joining the company more than 20 years ago, I have had far

more access to training and mentorship than I have experienced at any other company. It's our core competency.

Our Five Principles—Quality, Responsibility, Mutuality, Efficiency, and Freedom—are at the center of every decision we make. Mutuality has been a cornerstone of our company since 1947 when Forrest Mars Sr wrote that the objective of a company is to create a mutuality of benefits for a broad range of different groups. Today, you would call it a stakeholder approach. We care deeply about creating value for our customers, associates, our owners (the Mars family), and the communities in which we operate. It's important to me that I can stand before any group of Mars associates and share how the Mars family is contributing to the community and the planet.

Finally, as a privately owned family business, we have the freedom to shape our future. Our owners take a long-term perspective when it comes to investing in our people and business—and they are prepared to transform the organization as needed. That empowers our

associates to innovate, act, and grow in service of our common goals.

What are the biggest challenges and opportunities that you see in the coming years?

Some things will continue to change significantly— the geopolitical situation, the technology landscape, workforce demographics, as well as the state of our planet. Other things will remain the same. Humans will continue to seek connection and meaning in their lives. Empathy will matter more than ever, especially in an increasingly polarized world. Businesses must focus on its customers and consumers—the minute you lose that, you're out of the game.

What does this mean for us? First, our values and purpose must continue to serve as our moral compass. We could organize our company a hundred different ways, but our purpose is what tells us whether we're moving in the right direction. Second, the organization chart of the 1850s that had hierarchy at its core is no longer relevant. We need to

build for communities, not for hierarchies. Third, sustainability must be embedded throughout the organization—not in a single department, but as part of everything we do.

We need to get all three of these imperatives right. Nobody has all the answers, but we can take meaningful steps towards these objectives every year, measure our progress, and hold ourselves accountable.

Having led a successful transformation, what advice would you give other leaders who want to transform their organization and operating model?

To start, the transformation must be anchored in the purpose of the organization. That purpose has to be built on an intrinsic truth, not just a slogan on the wall. For example, when we transformed our pet care business, we organized our operating model around the purpose of creating a better world for pets.

Next, I would ask CEOs, "Are you ready to transform?" We sometimes delegate transformations to HR or others, but that doesn't work. As a CEO, you must personally lead transformation and be willing to transform yourself. Only then will the rest of the company follow your lead.

I would also tell CEOs to listen to the next generation. Listen with your head and heart. During our pet care transformation, we went a few levels down to our more junior managers and asked them to share their insights and help shape the future organization. We asked them to travel the world and visit the best-run organizations. One of the key ingredients they came back with was purpose. The source of our success sits within our own ranks.

Finally, I would advise organizing the business around a set of very clear assumptions, which provide a clear North Star that does not change throughout the transformation. Your people, your customers, and your purpose should be at the center of this and shine a light on the transformation path ahead.

More about

Poul Weihrauch

CEO of Mars, Incorporated

Poul Weihrauch became CEO of Mars, Incorporated, in September 2022. In his more than 20 years with the company, he has worked across all business segments and is known for his commitment to associates and merging purpose and sustainability into a strategy to drive growth, performance, and positive impact. Previously, as president of Mars Petcare (from 2014 on), Poul led the evolution of Mars, Incorporated, into a true pet care company, making Mars the world's largest provider of veterinary services and doubling the size of the business.

Before joining Mars, Incorporated, Poul worked for Nestlé in various sales and marketing positions in the Nordics and Belgium, as well as confectionery for the Africa, Oceania, and Asia regions. He started his career with Stimorol Chewing Gum in his native Denmark and has since lived and worked in six countries.

'Our Five Principles—**Quality, Responsibility, Mutuality, Efficiency, and Freedom**—are at the center of every decision we make.'

Entrepreneurship at all levels: How Decathlon innovates for the future

Decathlon CEO Barbara Martin Coppola on how the global retailer cultivates its entrepreneurial spirit and stays true to its values in the face of disruption.

Decathlon is one of the world's largest sporting goods retailers, with more than 108,000 employees in more than 70 countries. Every one of those employees, known as teammates, is encouraged to speak up, innovate, and bring their ideas to the table—all in service of the company's mission to democratize sport and have a positive effect on people and the planet.

We spoke with Barbara Martin Coppola, CEO of Decathlon, about how the company embraces inclusive leadership and bottom-up innovation to keep up with a changing world.

What is the secret of Decathlon's success?

The key to Decathlon's success has been, and always will be, our passionate commitment to our teammates and our customers. We believe that every person adds value.

We have a strong purpose- and values-based culture. Our mission is to democratize sport so everyone can experience its wonders on their own terms. This attracts employees who are passionate about sport and who want to make a difference. Once they join, Decathlon offers a culture of empowerment and entrepreneurship, so people learn by doing and are entrusted with large jobs that drive change from day one. This creates a magical combination of people centricity, a purpose larger than oneself, and a culture of energy and positivity. The thing I'm most proud of is our collective effort to always innovate and be better for people, societies, and the planet. We have a clear vision and mission for the future of the business, and I know we are going to achieve amazing things as a team.

How has Decathlon built leadership capabilities and mindsets at all levels, not just in the C-suite?

We lead with purpose—a North Star we built together, as one team, to move people through the wonders of sport. A North Star that makes us wake up every day with strong commitment, determination, and passion, no matter our level within the company.

At Decathlon, we minimize hierarchical structures to enable entrepreneurship at all levels. We're one team of passionate people striving for a shared ambition: to have a positive impact on the global population and on the planet.

We want people at every stage of the customer journey to constantly look for better ways of doing things. If someone notices an area that could be improved or innovated upon, they will receive the necessary backing and support to make it happen. This is true for all employees and certainly is not reserved for the C-suite. It is the teammates who deal with our customers on a daily basis who have the most direct access to our consumers, so it is vital that we listen to them no matter their level. We foster leadership qualities in all of our teammates, which is also why we place such an emphasis on hiring people who share our values.

Can you share more about Decathlon's commitment to environmental and social responsibility?

As someone who has lived in nine countries on three different continents, I am particularly proud to see how Decathlon makes sport accessible to millions of people around the world and improves health and human connection. I love seeing the great array of possibilities that arise when you have cooperation among teammates from 100 nationalities, with different cultural backgrounds and languages. We strive for diversity and inclusion not only in our recruitment processes but also in our product research, design, and manufacturing teams. We're constantly looking for ways to make our products more accessible to all. For example, we've recently launched a set of adaptive products for wheelchair basketball and road racing, and we regularly create products designed for sportspeople with different body types, such as our post-mastectomy sports bras or maternity wear.

Social responsibility runs through our very core. We believe our mission is to create value not only for shareholders but also for society and the planet. Therefore, we have set our goals on sustainability, financial performance, and people to be at the same level of importance, even at the bonus level. We have global targets for CO_2 emissions reductions, and every single country entity is committed to them. We also take pride in our Ecodesign innovations, and we're building a truly circular economy with our Second Life programs, trade-in schemes, and rental services.

What will be the key to Decathlon's continued success in the future?

During these turbulent times, we're reemphasizing the importance of remaining deeply focused on the people at the center of our organization. We need to make every teammate feel valued and heard, ensure that the customer is at the center of every decision we make, and always keep an open mind to new ideas and different perspectives, especially if they challenge the "old" way of doing things. This requires a culture of safety that allows people to say what they really think. It's easy to become too comfortable in a certain routine, methodology, or structure—but the world is changing rapidly around us. We have to stay agile to keep up.

For Decathlon, the future is bright as we embark on a brave new journey. As we fine-tune our focus and step up our efforts in areas like our value chain, customer experience, and sustainability, one thing will remain at the heart of who we are: our people. We thrive off the talented individuals around us and we will always use the entrepreneurial excellence of our teammates to succeed and move people through the wonders of sport.

More about

Barbara Martin Coppola

CEO of Decathlon

Barbara Martin Coppola joined Decathlon in March 2022 with more than 20 years of experience in four different industries: semiconductors, consumer electronics, retail, and pure digital players.

Prior to Decathlon, she was chief digital officer at IKEA and had overall responsibility for the group's digital transformation. Throughout her career, Barbara has held leading positions in global businesses such as Google, YouTube, Samsung, and Texas Instruments in Europe, Japan, South Korea, and the United States. She has a strong customer focus combined with marketing, digital, and tech experience. She has a successful track record in growing and transforming businesses.

'**We believe our mission is** to create value not only for shareholders but also for society and the planet.'

A business of its times: Haier's self-evolving organization

Huagang Li, senior vice president of Haier Group and CEO of Haier Smart Home, on using the company's organizational model to stay close to users and build an innovative company.

Haier Smart Home has transformed from a home appliance maker to a world-leading home appliance brand and smart home ecosystem builder. Now, it is on the list of Fortune Global 500 and Fortune World's Most Admired Companies. We spoke with Huagang Li about the company's storied organizational model and how it has enabled the company to rapidly innovate with the times.

What's the secret to Haier's success?

Ruimin Zhang, founder of Haier Group, said that there is no such thing as a successful business, only a business of its times. Haier is successful because we have captured the opportunities presented by our times. Along the journey, the most important success factor has been our continuous focus on human value maximization, or what we call *Rendanheyi*. [The word is created by combining three Chinese words.] *Ren* means employees. *Dan* refers to user value. *Heyi* means integration. This means every employee gets to create value for users. Whatever

your value, it is mirrored in the value you create for users.

When I joined the company 30 years ago, it was a small refrigerator manufacturer. As the company started to grow and diversify, Haier acquired a washer manufacturer and an air conditioner manufacturer on the verge of bankruptcy. We sent only three employees to each manufacturer, and they were able to quickly turn them around. It was not because of funding, but because we implemented the *Rendanheyi* model to change people's mindset and unleash their creativity.

The *Rendanheyi* model has also played a key part in the success of our international M&As. We did not send leaders to these companies, but instead asked local management to implement the *Rendanheyi* model. For example, when we acquired GE Appliances, they asked whom they should report to during our first meeting. We replied that we all should report to the users. By following the *Rendanheyi* model, they realized their value, earned recognition,

and generated impact while serving the users. Today, GE Appliances has become one of the fastest-growing home appliance companies in the United States.

How does the *Rendanheyi* model help Haier evolve with the times?

Our core value of *Rendanheyi*, or human value maximization, has four aspects. First, we encourage our employees to innovate and meet the constantly changing needs of our users in the best possible ways. Second, we maximize value for our ecosystem of partners by creating win-win situations. Third, we create equal opportunities and motivate and empower employees so they can be at their best. Fourth, we maximize the enterprise value. When we create the best experience for users, the number of our lifelong users increases, and our employees are motivated. As a result, we deliver sustainable returns to our shareholders in the long run.

For example, we launched a platform in 2019 to provide better services to users.

The platform also collects user reviews, helping us improve our production and logistics services. More importantly, this platform enables us to build an ecosystem based on user needs on the platform where all parties can share resources, co-create, and innovate to provide the best solutions to users.

How does the *Rendanheyi* model shape the organizational model at Haier?

Traditionally, companies tend to implement a top-down management model. Under the *Rendanheyi* model, companies transition into a bottom-up user-centric model. That is, we provide products and services, and set up an organizational model based on the needs of users.

The model also requires horizontal collaboration. At Haier, any employee can form a micro-enterprise with decision-making, employment, and resource distribution rights. However, they do not work in silos. They collaborate with other micro-enterprises to form an ecosystem micro-community (EMC), which is a self-evolving organization that focuses on delivering the best user experiences. It's like a jellyfish. A jellyfish doesn't have a nerve center, but when a tentacle finds prey, the other tentacles will immediately help catch it. This kind of self-organization maximizes the autonomy and creativity of our employees.

Could you share an example of how the EMC model works?

Take Kitchen as an example. We used to focus on providing the best products, such as refrigerators and range hoods, to our users. But our users' needs are rapidly evolving. For example, they want their range hoods to be connected to the ranges, refrigerators connected to the ovens, kitchen appliances to become part of the kitchen design, and kitchen design to match the overall home design. What the users need is no longer a set of products but smart home solutions.

That's how the EMC model came into being. It breaks down silos across teams and across the boundaries of the industry. EMCs partner with each other to innovate and create the most user-centric solutions.

How does Haier attract and develop talent under the EMC model?

Haier continuously attracts global top talent by providing both a platform and an environment that enable everyone to become entrepreneurs and achieve their lifelong dreams. It creates a positive cycle in which the company attracts talent, talent helps the company succeed, and the success motivates talent.

In addition, Haier believes that all employees have potential, and it's our job to create the right mechanism to develop them. At the center of this mechanism is on-the-job learning. We provide a playing field, no matter how big or how small, for all employees to unlock their full potential.

More about

Huagang Li

Senior vice president of Haier Group and CEO of Haier Smart Home

Huagang Li is the senior vice president of Haier Group and CEO of Haier Smart Home. He also serves as the vice chairman of China Household Electrical Appliances Association (CHEAA). Huagang joined Haier Group in 1991 and has held positions including sales general manager of Haier Refrigerator Electrical Division, general manager of RRS Supply Chain, general manager of Haier Commercial Distribution Channels Division, general manager of Haier Smart Home China, and CEO of Haier Appliances. During his tenure, Huagang has been responsible for the company's strategic transformation from offering high-end brands to being a smart-home ecosystem builder. He has won many honorary titles, such as Outstanding Achievement Award for the China Household Electrical Appliances Industry, People of the Year for China's Top Ten Brands, and Leading Talent in China's Core Industries.

'What the users need is no longer a set of products but **smart home solutions.**'

Leading from the front: How DBS embraces change and empowers employees

Yan Hong Lee, managing director and head of group human resources for DBS, discusses creating a purpose-driven, empowered organization.

Singapore-based financial institution DBS has been named "World's Best Bank" by several global publications, such as *Euromoney* and *Global Finance*. It has focused on its purpose, pushed the limits of technology to shape the future of banking, and invested in creating a healthier and more diverse workforce.

As the managing director and head of group human resources, Yan Hong Lee works closely with the senior leadership team to drive the company's strategic people agenda and empower its more than 33,000 employees to make faster, better decisions in line with the bank's values and priorities.

We spoke with Yan Hong about how DBS fosters a distinctive workplace culture and engages and empowers its employees.

What sets DBS apart from other organizations?

There are three special ingredients that set us apart. The first is strong and consistent leadership. Our management team has been together for a long time. They've set a vision, purpose, mission, and strategy for our organization and communicated it clearly through an easy-to-understand mission of "making banking joyful." We also use a balanced scorecard to prioritize our efforts; it's created from the top down and bottom up, so everyone buys in.

Next, we foster a culture that supports our purpose. DBS was created 54 years ago to help in the development of Singapore. We are here to do good things for people and make a positive difference; that is deeply rooted in our organization's psyche. When we laid out our vision to be "the best bank for a better world," it wasn't something we were trying to discover or overlay onto our existing culture. At the same time, we want to make sure the culture we build has a tangible impact on our business, customers, and the community we serve. We had to become more agile, flexible, and customer centric. We started by streamlining our matrixed organizational structure to three levels. Now we also have a horizontal organization that enables us to move faster by removing roadblocks, breaking down silos, and leveraging data more effectively.

Our third ingredient is the way in which we deliver our employee value proposition: "Live Fulfilled: Be the Best, Be the Change, and Be the Difference." We are committed to building the long-term careers of our people.

How does DBS deliver that value proposition to its people?

In several ways—we identified more than 8,000 employees for upskilling in 2020 so they could master new skills and have new career opportunities. We offer more than 10,000 learning programs and job exposure opportunities so our employees get to experience what it's like to do a different job in the bank. Today, one out of four vacancies in the bank are filled by our own people. We were also ahead of the curve when we launched several flexible work arrangements in 2020, including

hybrid work and a 100 percent work-from-home option for six months for employees with caregiving responsibilities or parents with newborns.

How did you get employees on board with the transformational changes?

Change must start at the top, with a strong and consistent leadership team like ours, and then involve employees at all levels. People support what they help create. We went to our employees and asked them what they needed to take the organization forward. That's how we came up with our PRIDE! values: purpose-driven, relationship-led, innovative, decisive, and everything fun! We deeply embedded these values in our people programs and processes, including performance appraisals, recruitment, promotions, and various leadership development programs.

We sought ways to empower our employees, trust them more, and give them more freedom to make decisions. We delegated decisions to the lowest possible level; for instance, performance and compensation decisions, which were managed by senior vice presidents and above in the past, are now made by line managers. Customer service representatives are empowered to make decisions on anything less than $200. We encourage people to experiment—just not make preventable mistakes—even if they fail. We created a safe environment that allows people to speak up and take risks. For example, during

meetings, we give everyone a chance to contribute and encourage the most senior employees to speak last. We ask employees to play devil's advocate to create space for differing opinions.

How has DBS further fostered that psychological safety and mental wellness?

We've created a lot of transparency and accessibility, which feeds into psychological safety and helps us meet our goals around DE&I [diversity, equity, and inclusion], employee engagement, mental health and well-being, etcetera. Employees have several opportunities to directly access senior leaders. These include a quarterly bank-wide employee town hall with a Q&A segment hosted by CEO Piyush Gupta and joined by other group management committee leaders. Senior leaders regularly visit offices across markets and host their own town halls, skip-level meetings, and small group sessions to connect with staff. "Tell Piyush" is another open channel for employees to write to our CEO with any questions or ideas they have, and each question receives a personal reply.

This level of transparency has led to some fantastic results. Nearly 97 percent of our employees complete the engagement surveys we field annually, which tells us people trust that we take their opinions seriously. In the most recent survey, 91 percent told us they felt DBS was a psychologically safe environment. We were very proud of that.

More about

Yan Hong Lee

Managing director and head of group human resources at DBS

Yan Hong Lee has more than 30 years of experience working in human capital management across a spectrum of industries and geographies. She has worked at General Motors, Hewlett Packard, and Citigroup on topics related to compensation and benefits, talent and performance management, learning and development, employee relations, and organizational design.

At DBS, Yan Hong drives the overall strategic people agenda by setting the direction and spearheading various functions and initiatives in the organizational growth of the bank. Under her leadership, DBS has won a number of global and regional accolades, including Regional Best Employer in Asia–Pacific by Kincentric and being named to the Bloomberg Gender Equality Index for six years running.

'Today, **one out of four vacancies** in the bank are filled by our own people.'

Relationships worth building: The LEGO Group's people-first approach

Loren I. Shuster, chief people officer and head of corporate affairs for the LEGO Group, on keeping a brand modern by focusing on people.

The LEGO Group has captured the imagination of children and adults around the world for more than 90 years. The Denmark-based company sees children as its role models and puts their forever-learner mindset at the center of everything the company does, from alignment on its long-term vision and mission to the equality among all employees. McKinsey spoke to Loren I. Shuster, the LEGO Group's chief people officer and head of corporate affairs, about how the company continuously innovates to keep its edge, evolves its brand and culture, and remains resilient and steadfast in its purpose and mission.

What do you think has made the LEGO Group so successful?

There are a few things that make the LEGO Group unique and help explain the company's longevity and success. Since the organization was founded, there has been a clear alignment on our purpose among the owner, board, CEO, management, and employees. The alignment and clarity have shaped our vision, mission, values, and

culture. They've enabled us to focus on growth and learning and have been a driver of our success and resilience throughout generations and challenges.

The LEGO Group sees children as role models. They inspire us because they are forever learners. Our mission in return is to inspire and develop them because they are the builders of tomorrow. We are 25 percent owned by the LEGO Foundation, which is a purpose-driven not-for-profit organization focused on bringing the benefits of learning through play to underprivileged children around the world.

Another success factor is our direct relationship with our consumers—both children and adults—in addition to our valuable business-to-business relationships with retailers. It allows us to have conversations about our products, something for which many brands yearn. And we connect with them through multiple forums and channels. The YouTube channel on which users post videos about LEGO play experiences is one of the top channels in the world.

How has the company worked to define its purpose? What role does it play in attracting and retaining talent?

Since 1932, when Ole Kirk Kristiansen founded the carpentry business that became the LEGO Group, the Kristiansen family has played a leading role in our organization through to the fourth-generation owners today. The family and all our colleagues remain committed to making a positive difference for children around the world. This ambition comes alive throughout the LEGO Brand Framework, which articulates our purpose, mission, and values and steers everything we do today. It's built around four important promises to people, play, the planet, and our partners.

We're investing in our people and brand for the long term. We're not trying to hit a quarterly target—we're trying to become an immersive brand that people want to engage with across generations. We still innovate and try new things in ways that protect our brand and our people for the future. Our employees

and partners see that, and it shows up in motivation and satisfaction.

How does the LEGO Group live out that people promise?

Our people promise is a critical component of our employee value proposition and how we attract and retain talent. It's our commitment to creating a safe, healthy, respectful, diverse, and equitable workplace for all employees. For example, we believe every employee should be treated equally.

When we introduced universal parental leave, a minimum of 26 weeks was allotted for the birthing parent, whether an hourly factory worker or a salaried executive. That philosophy carried through the COVID-19 pandemic. Although our stores and factories were shut down, we didn't lay off anyone, and we continued to pay our colleagues and give additional compensation and benefits equally around the world, from Denmark to Mexico.

Another way we live our people promise is through our philosophy on leadership. Again, children's hands-on, minds-on approach to learning inspired our approach to cultivating leadership behaviors and mindsets. We developed our "Leadership Playground" model to ensure everyone is heard, contributing, respected, and valued. In the Leadership Playground, anyone can volunteer to lead groups focused on employee health and well-being, innovation, and creativity. We believe that to continuously thrive in the constantly changing world, everyone in an organization needs to act as a leader, not the executive leadership team alone.

How do you remain steadfast and act with speed at the same time?

Our long-term view has created a stable backbone for us and sent a strong signal to our employees, customers, and partners. That, paired with creativity, learning, and relevance (such as taking the brand digital), has helped us to act with speed while remaining steadfast. In some cases, having a rigid platform helps with scaling and growth. Rigidity in our manufacturing enables a refined product and a higher level of profitability. Meanwhile, we need more speed around our digital products to create a better experience for consumers.

One of the biggest strategic choices we made recently is a partnership with Epic Games to shape the future of the metaverse to make it safe and fun for children and families. We believe there is huge potential for kids to develop lifelong skills such as creativity, collaboration, and communication through digital experiences. But we have a responsibility to make [these experiences] safe, inspiring, and beneficial for all. Just as we've protected children's right to safe physical play for generations, we are committed to doing the same for digital play. We want to create an exciting and playful future.

More about

Loren I. Shuster

Chief people officer and head of corporate affairs at the LEGO Group

Loren I. Shuster joined the LEGO Group in 2014 as chief commercial officer. In 2017, he stepped into his current role as the LEGO Group's chief people officer and head of corporate affairs. He brings to the role a unique blend of global commercial and marketing experience, as well as a track record of building high-performing, global teams. In his role, Loren is responsible for the LEGO Group's people agenda, environmental sustainability, social responsibility, government affairs, and corporate brand communications.

Before joining the LEGO Group, Loren held senior leadership positions within commercial and marketing at Google and Nokia. He is also a board trustee of the Institute of Business Ethics in the United Kingdom.

'We're **investing in our people and brand** for the long term.'

The ties that bind: How AIA leads with purpose and empowers its people

Cara Ang, group chief human resources officer of AIA, on how the Asian insurer anchors on purpose and develops critical capabilities for the future.

The purpose of AIA—to help millions of people live "Healthier, Longer, Better Lives"—applies not only to its customers and the communities it serves but also to its employees and agents. AIA brings together a multigenerational workforce representing more than 70 nationalities. Its purpose sits at the core of the company's culture, from its leadership philosophy to its employee health and well-being program.

We spoke with Cara Ang, AIA's group chief human resources officer, about how the company's purpose-driven culture, operating model, and leadership ethos empower its employees to continuously learn and grow.

What are you most proud of about AIA?

Our purpose—to help millions of people live "'Healthier, Longer, Better Lives." It is at the heart of everything we do, guiding the decisions we make and inspiring us to support and protect the well-being of those we serve. Our

purpose shapes our culture and sets us apart from our competitors.

As our group chief executive and president, Lee Yuan Siong, says, it's our "strong culture of empowerment with accountability that differentiates AIA. Our culture reflects our people and is a product of the decisions and actions each of us takes every day. It underscores our ability to adapt to capture new growth opportunities and sustain our outperformance over the long term."

How does AIA's operating model contribute to the success of the company?

The essence of our operating model is empowerment within a framework. We're guided by the philosophy that if we do the right thing, in the right way, with the right people, the right results will come. We operate in 18 markets and empower the leaders and employees in each one to achieve their ambitions by building their expertise and providing the resources and guidance they need.

Over the past few years, our focus has been ensuring our business units have the right technology, digital and analytics people capabilities, and investments to support the delivery of compelling propositions and a leading experience for our customers. We have evolved the way we work, too, with the aim of creating an organization that is simpler, faster, and more connected. In several of our markets, we have introduced new organizational designs to enable our strategic priorities. We are putting people closer to the decision-making process, which leads to better outcomes and a nimbler and more empowered organization.

How would you describe AIA's leadership philosophy?

We are very mindful that having effective, clearly focused leaders at every level of our organization is a prerequisite to success. Our three leadership essentials—clarity, courage, and humanity—define the behaviors we desire and are deeply rooted in history;

the Chinese philosopher Fushan Yuan first set out their importance, and we adopted them following our IPO in 2011. They shape our culture, define our aspirations, and drive our employees' development and progression at AIA.

How is AIA building key capabilities for the future?

We have four types of capability building within our "catalyst for growth" framework: core leadership skills, sustaining business excellence, developing skills for the future of work, and building functional capabilities. We ensure every program has a business sponsor, not an HR sponsor, so there is clear business ownership and demand for the capabilities we're developing.

I'm very proud of our recently launched reskilling and upskilling programs for data analytics, business analysis, and agile ways of working. We had a growing demand in these areas, but we didn't have the talent supply, so we created several new learning journeys that included screening, training, and practical work experience to build these capabilities internally.

We also recently expanded our succession planning programs to grow and develop future leaders and cultivate greater gender diversity among our C-suite. Today, women hold about 42 percent of senior leadership roles in AIA, and we will continue to prepare and support women to maintain a gender-balanced leadership team.

How does AIA invest in employee health and well-being?

Our people's well-being is fundamental to our performance and sustainable growth. We've launched AIA One Billion, a bold ambition to engage a billion people to live healthier, longer, better lives, and this ambition starts with our own people through our comprehensive well-being program known as WorkWell with AIA. It was designed to support the physical, mental, social, and financial health of employees through a range of initiatives, employee benefits, and tools tailored to the needs of each business unit. We collect a lot of detailed employee feedback and data points to help us understand what works and what doesn't and use that to inform our planning for the next cycle. We strongly believe that this comprehensive investment in employees' well-being will pay off for our people and our business.

More about

Cara Ang

Group chief human resources officer at AIA

Cara Ang is the group chief human resources officer at AIA. She oversees the development of overall human capital strategies and their implementation across the group and leads the HR functions in the markets.

Prior to joining AIA as the chief human resources officer for AIA Singapore in May 2016, Cara was the head of human resources at Standard Chartered Bank Singapore. During her time with Standard Chartered, she spent more than ten years in a variety of country, regional, and global HR leadership roles based in Singapore and Thailand. Prior to joining Standard Chartered Bank, she held HR roles in the Asian operations of Marsh, Intel, and Royal Ahold.

'We strongly believe that this comprehensive **investment in employees' well-being** will pay off for our people and our business.'

All remote from day one: How GitLab thrives

Sid Sijbrandij, cofounder and CEO of GitLab Inc., on how the organization builds a cohesive culture and helps its team members thrive in a fully remote workplace.

GitLab's roughly 2,100 team members span more than 60 countries—and every single one of them works remotely. Unlike many companies that were abruptly forced to close their offices during the COVID-19 pandemic, GitLab has embraced a remote-work environment from its inception in 2011. It is now one of the largest fully remote organizations in the world.

Under cofounder and CEO Sid Sijbrandij, the company has evolved from an open-source collaboration tool for programmers to an end-to-end development, security, and operations (DevSecOps) platform with more than 30 million registered users. Its rapid growth is underpinned by a set of norms, systems, and processes that enable its global workforce to collaborate across time zones and schedules.

We spoke with Sid about how GitLab team members stay connected, sustain a healthy culture, and manage their time within a remote and asynchronous workplace.

One of the things that differentiates GitLab is that it's fully remote. How have you maintained connectivity and built culture in this environment?

Working remotely is easy. The challenge is working asynchronously. Organizations must create a system where everyone can consume information and contribute regardless of their level, function, or location. We invest in working practices that enable asynchronous communication, and we've committed to educating and supporting other companies through the global transition to remote work that started during COVID-19 and continues today.

Within GitLab, our handbook, which is more than 2,700 web pages and available to the public, is a big part of what enables us to work asynchronously.[1] When an employee has a question, they can almost always find the answer documented in our handbook, without having to tap someone on the shoulder.

The "handbook first" system is embedded in the way we work. Every change must first be documented in the handbook, and all communications about the change include a link back to the handbook. We work together to make sure it is always up to date. For example, our CMSO [chief marketing and strategy officer] is responsible for maintaining the

marketing section, though anyone can propose edits as needed.

Effective internal communication is crucial in fast-paced organizations like GitLab. How has that manifested at GitLab?

We rely on informal communication to develop closeness and camaraderie. Our onboarding process[2] trains people in how—and how often—we communicate with each other: every new hire initiates five virtual coffee chats so they learn that it's normal to schedule meetings with a colleague just to connect, whether it's work related or not.

In-person events are also a fantastic way to build this culture, but only if you're intentional about how you use them. A lot of companies bring people together, then lock them in a conference room to sit through PowerPoint presentations for a couple of days. That's a waste of time and money. They could have watched those presentations asynchronously.

At GitLab, we spend most of our in-person time going on excursions, sharing meals, or holding an

"un-conference," where small groups discuss topics one after another. We use our valuable time together to build connections through the kind of face-to-face interactions that can take place only outside of our screens.

What processes are in place to help employees manage their time in a remote and asynchronous working environment?

We're very thoughtful about how we use our time. For example, meetings shouldn't just be gatherings of people for a conversation. Unless it's a coffee chat, every meeting must have an agenda, and people are expected to read the agenda before the meeting. Our meetings end at the 25- or 50-minute mark to give people time to prepare for their next meeting. We also try to make it acceptable for people to look away during meetings—they manage their own attention and participation—and to interrupt politely to ask questions or share context, just like you would during in-person conversations. We take notes during every meeting and, when possible, record them so people who can't attend can still hear the conversation, and we aim to resolve discussion with clear next steps, owners, and delivery dates.

How does the culture at GitLab contribute to its success?

Most important, we maintain a bias for action. Everyone at GitLab is empowered to be proactive, creative, and effective. We all must make decisions with imperfect information; this mindset helps us make the small ones more efficiently. We document them and maintain the ability to change them if necessary, but there's cultural support for everyone to do what they feel is best, instead of calling meetings to debate every choice or action. We have a higher tolerance for mistakes and an appreciation for which decisions need discussion. Overall, this approach helps us to be more effective.

How do you build and strengthen the culture over time?

Culture isn't preserved. It evolves. You have to measure what you want to reinforce. At other companies, there is still a lot of presenteeism out there—where team members are rewarded for just showing up, responding quickly, and looking like they are working day and night. If that's what you reward, that's what you're going to get. It's much better to reward the results. At GitLab, we evaluate team members using metrics that are relevant to their roles. For example, in R&D, we measure how many pieces of code land in production. What matters is not the number of hours you work—it's the work that gets done.

More about

Sid Sijbrandij

Cofounder and CEO of GitLab Inc.

Before GitLab, Sid Sijbrandij built recreational submarines for U-Boat Worx, developed web applications for the Ministry of Justice and Security of the Netherlands, and discovered his passion for open source. He is described as the anchor of all-remote working and GitLab's product visionary. Under Sid's leadership, GitLab has grown from seven people in 2011 to more than 2,100 employees across more than 60 countries today, without owning or leasing dedicated office space anywhere in the world.

'Culture isn't preserved. It evolves. **You have to measure what you want to reinforce.**'

Shooting for the moon: How PsiQuantum forged its own path

Dr. Jeremy O'Brien, cofounder and CEO of PsiQuantum, discusses defying conventional wisdom, attracting world-class talent, and staying focused on a vision.

PsiQuantum is on a mission to build the first useful quantum computer, a machine that can solve impossible problems beyond the capabilities of anything that exists today.

More specifically, it is developing a utility-scale, fault-tolerant quantum computer with a silicon photonics-based architecture that enables manufacturing in a conventional silicon chip foundry. Photonic qubits have significant advantages at the scale required to deliver a fault-tolerant quantum computer, and PsiQuantum partnered with semiconductor company GlobalFoundries to achieve this objective. With core quantum components already in volume production, this is an unprecedented economic signal of maturity for a technology that is often viewed as being at the early research phase.

Since its founding in 2015, the company has expanded to more than 200 employees and has raised more than $700 million in private capital, bringing its valuation to more than $3 billion. We spoke with cofounder and CEO Jeremy O'Brien about his vision for the company and the people, culture, and mindsets that enable its success.

What drives you and your organization?

We founded this company on the conviction that quantum computing is the most profoundly world-changing technology that humans have discovered and that to do anything useful, you need a million-plus-qubit quantum computer.[1] This was contrary to the dominant thinking at the time, which was to scale up from ten qubits to maybe 100 or 1,000. If you think the goal is to get to the top of the Empire State Building, you build longer ladders. If you realize that the goal is to reach the moon, you take a completely different approach. That's what we did. Seven years later, the consensus is that we were right.

We are still fanatical about getting to a million-plus qubits, and we have a viable path to deliver on that promise. Our commitment to this goal is driven by our understanding that only at such scales will quantum computers address the substantive problems impacting health, the environment, and innovative materials. This belief has always been the guiding light for everything we do, and it's why the smartest people want to come work with us.

Let's talk more about finding the best talent. What do you think has enabled your organization to attract the right people with the right skills?

My two main reports—our chief operating officer and chief business officer— are multiventure CEOs. They are vastly more experienced than me in the semiconductor industry and in the broader tech industry. I think there's something about the organization that attracts people like them. In addition to the vision, we have an extremely profound technology, a unique approach to delivering it, and a focused discipline to maximize progress against our end goal. I've heard some colleagues describe it as a less-than-once-in-a-lifetime opportunity.

When I talk to colleagues about what keeps them here, it's the people and our bold vision. We've recruited these supersharp, technically gifted individuals who are collaborating in the most

extreme ways. Then it's the technical and business rigor of what we're trying to achieve. Our team is remarkably humble, especially as it faces solving problems of unprecedented scale. No one pretends to have all the answers, and yet we continually strive to achieve results that have never been done before.

We also care about bringing together a diverse group of people—including those with experience in different industries, roles, and functions. Since my university days, I've always been clear that ideas can be generated at any level and propagate in any direction. When you're tackling big questions with unknown answers, you've got to allow that and then filter those ideas. A big part of my role is making sure everyone is heard.

Can you describe some of the cultural or organizational elements that have enabled you to deliver on this big bet you've described?

My cofounders and I all came from the academic research world, as did many of our peers in the industry. We decided early on to exorcise this academic mentality and turn ourselves into a relentless industrial machine. It comes down to being a fanatic about impact— every cent and every minute must be spent on getting to the moon. We're not writing academic papers, and we're not interested in some cool demonstration of an algorithm unless it's useful.

It's a balancing act. We need to stay focused to this path that we've defined— especially when we're spending hundreds of millions of dollars on building out our capabilities. But at the same time, we need to recognize when it's time to be flexible and change. There have been times when employees have raised concerns or challenged the prevailing thinking, and we've listened and changed course.

How has your purpose informed your approach to commercialization?

When it comes to the commercialization of the technology, the guiding principle is always, "How do we create the biggest positive impact on the world as quickly as possible?" There is huge value to be created. We're taking problems that are otherwise impossible to solve and suddenly making that possible. There are plenty of spoils to go around.

It just doesn't make sense to obsess about capturing the maximum value or being the singular entity in the ecosystem. Of course, we're a commercial organization and we do have to think about revenue, but we're guided by impact at a higher level. If we get that right, then everything else will flow. It's really an extension of our "no distractions" policy. Everything we do has to be focused on the highest-impact applications with the highest-impact partners who are going to deploy this technology at scale in the shortest time possible.

More about

Dr. Jeremy O'Brien

Cofounder and CEO of PsiQuantum

Dr. Jeremy O'Brien is cofounder and CEO of PsiQuantum, a quantum-computing company on a mission to build the world's first commercially useful quantum computer and deploy it to tackle some of the greatest challenges we face across climate, healthcare, life sciences, energy and beyond. Jeremy has dedicated 25 years to this mission, having identified quantum computing as the most profoundly world-changing technology due to its potential to unlock solutions to otherwise impossible problems. Prior to founding PsiQuantum, he was a professor of physics and electrical engineering at Stanford and Bristol Universities and director of the Centre for Quantum Photonics.

'When I talk to colleagues about what keeps them here, **it's the people and our bold vision.**'

3 | Making change at scale
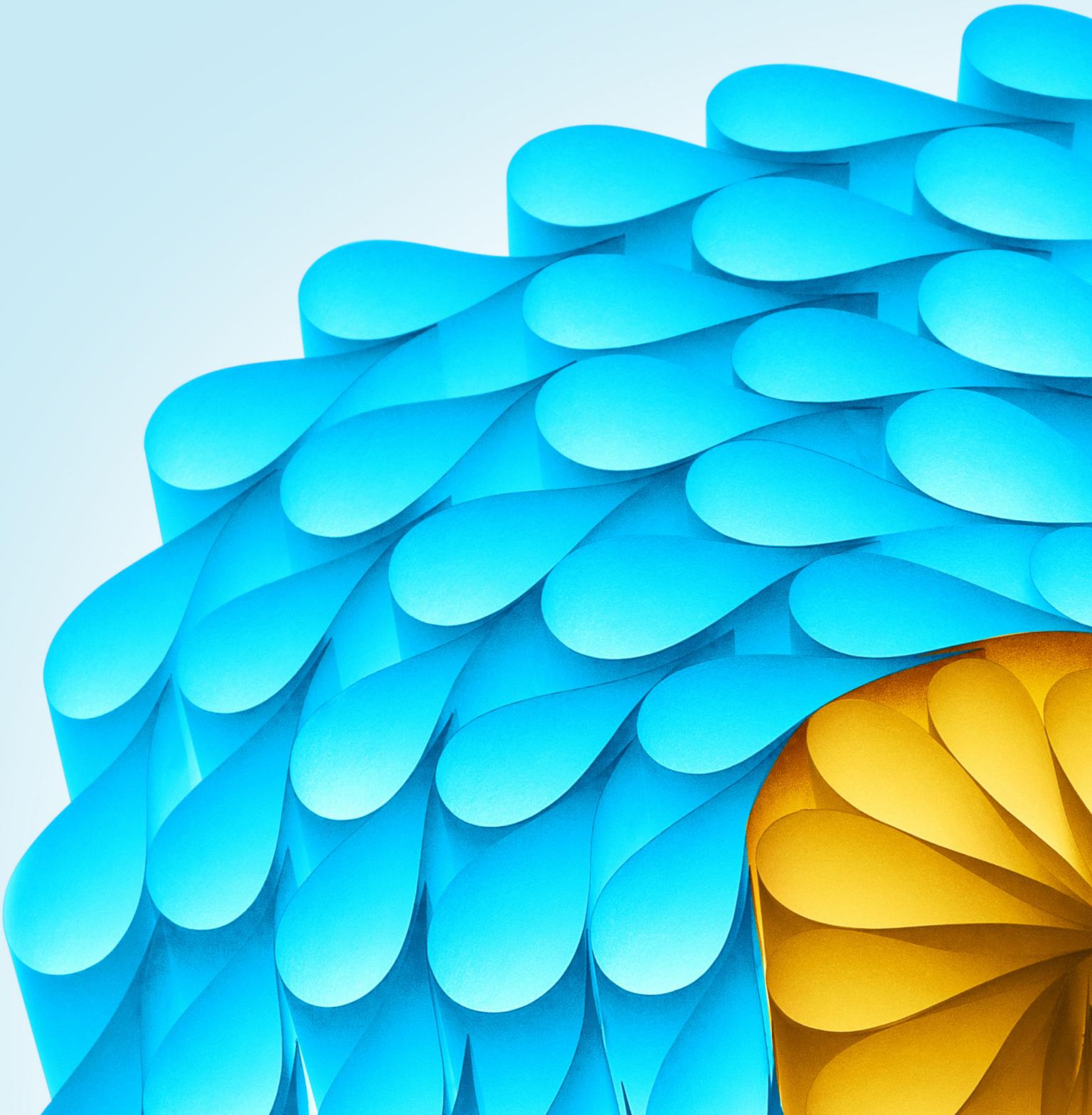
It isn't surprising that some organizational leaders feel disoriented amid all these developments and unsure about how to adjust to them. What's needed is an integrated approach. Every organization first needs to develop an appropriate perspective on the extent of the changes that could be required—whether fine-tuning or full transformation—and then focus on strengthening talent and leadership before tying it all together to ensure that change can take place at scale.
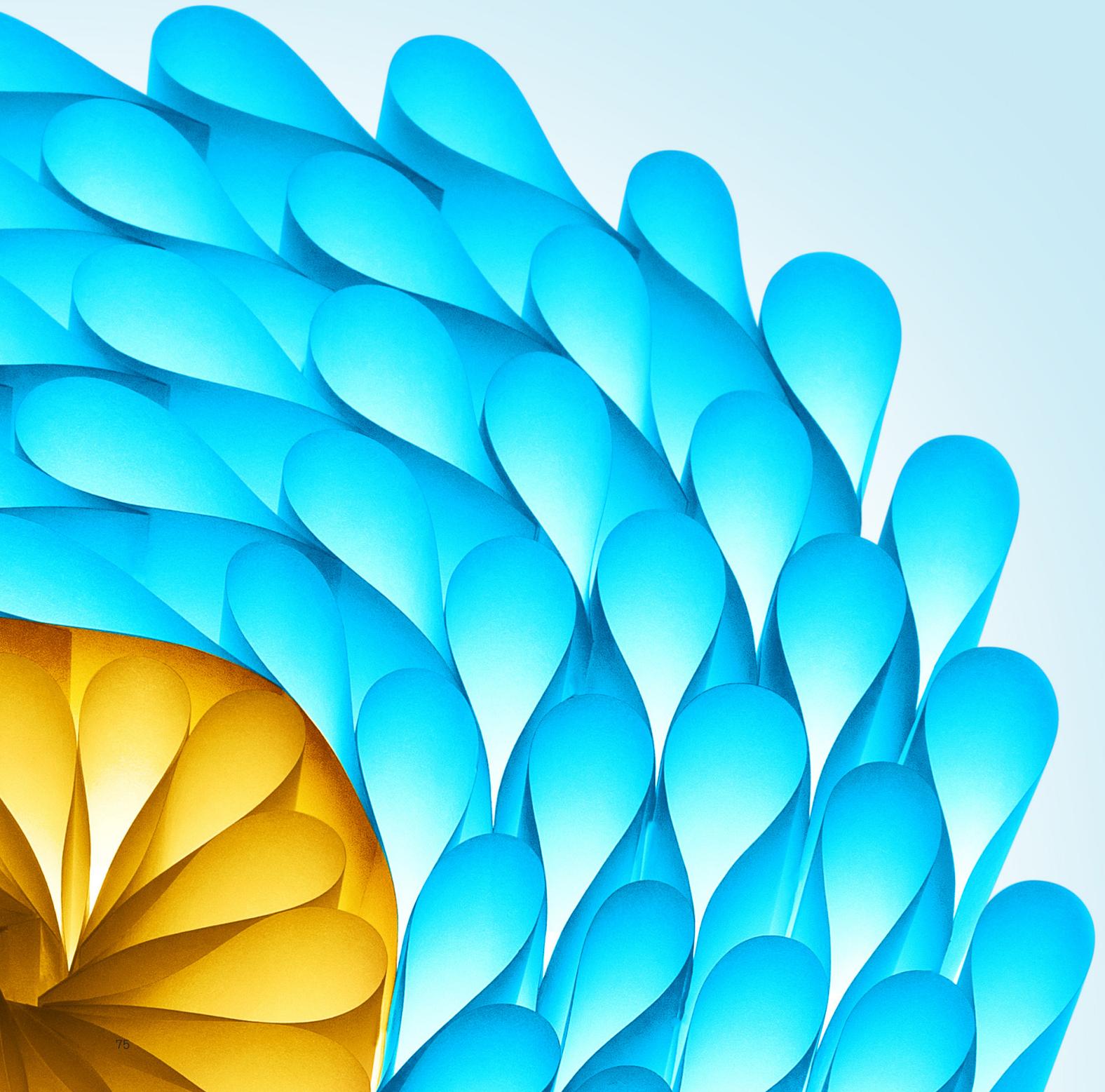
Any one of the ten organizational shifts we have highlighted in this report is a complex undertaking in its own right. All ten together amount to a supreme challenge for business leaders and their teams, especially in the current uncertain times, as economies and companies are buffeted by economic volatility, geopolitical tensions, and fundamental changes in lifestyle and attitudes on work resulting from the COVID-19 crisis.

Under the circumstances, it isn't surprising that some leaders feel disoriented, as the results of our State of Organizations Survey highlight. The organizational landscape has changed, and leaders may feel unsure about how to capture new growth opportunities and thrive in this unsettled world. In this section, we focus on an integrated, four-part approach aimed at making change at scale.

The first of the four parts is setting the direction to calibrate the ambition—that is, developing a clear perspective that is appropriate for the organization. This could be a question of fine-tuning to flatten structures and clarify roles and responsibilities better, or it could be a more radical transformation. The second and third parts are "must dos," regardless of the type of transformation undertaken: there needs to be a strong focus on cultivating the talent and on investing in the leadership that will take the organization forward. Indeed, McKinsey research has shown that 72 percent of transformations fail because of management performance that doesn't support the change (33 percent) and resistance from employees (39 percent).[1] The fourth part is the task of integrating all these aspects to ensure that change at scale can take place with an organization that is prepared to adapt to new situations, new challenges, and new opportunities.

This integrated approach will be essential for a company's future health and prosperity, as well as its ability to capture sustained value. McKinsey research has consistently shown that an organization's health predicts its financial performance.[2] Specifically, our latest analysis finds that companies with top-quartile organizational health in 2017 achieved TSR (as measured between 2017 and 2022) three times higher than the TSR of middle-quartile organizations. Meanwhile, companies with bottom-quartile organizational health saw their TSR drop by nearly 20 percent in that same period (Exhibit 24).

Organizational health is more than just culture or employee engagement.[3] It's a company's ability to get everyone aligned on a common vision, execute the vision effectively, and renew itself through innovation and creative thinking. It's critical for mobilizing employees in the face of near-constant crises, implementing new process steps or technologies, and attracting and retaining talent.

Companies that have successfully transformed their operating models have been able to boost customer satisfaction scores, work more efficiently, make decisions faster, and raise employee engagement scores.[4] But such transformations can be incredibly difficult to achieve. Consider that only 23 percent of organizational redesigns are implemented successfully, 44 percent tend to stall, and 33 percent fail.[5] CEOs can increase the odds of succeeding with operating-model transformations by applying a structured approach to change.

Setting the direction and calibrating the ambition

The critical first step is to set the direction and calibrate the ambition by *developing a clear perspective* on exactly what changes are required for the organization to compete more effectively. This calibration is the foundational step that will set the course for what follows.

As part of this process, CEOs must *identify the value* that may be trapped in their organizations because

Organizational health is more than just culture or employee engagement.

of certain elements of the operating model. Functional groups that isolate themselves from others, computing systems that are incompatible, overly complicated procurement and other administrative processes—all of these can prevent organizations from capturing speed and productivity gains and financial outcomes that could create more value.

With a sense of the scope of change required and the key priorities identified, CEOs can *determine how to unlock value*, deciding on one of two approaches based on the required degree of change:

— *Tune up the existing operating model.* Under this approach, a CEO might look at ways to capture straightforward sources of value without remaking the whole operating model. Some organizations, for instance, have rationalized certain core business activities to remove any redundancies, cleaned up their organizational charts and executive committee structures, and clarified who has which decision rights in certain functions and business units.

— *Reimagine the existing operating model.* Under this approach, a CEO may want to take steps to transform the organization radically. The CEO will need to present a compelling case for the changes being proposed and a detailed overview of their implications across the organization. If senior leaders agree with the case, the CEO can begin to create a blueprint for the new operating model, taking a system view of the operating model and then determining how to rewire its parts rather than considering piecemeal changes. In this way, the CEO can help cement the connections across all elements of the operating model—strategy, structure, process, people, and technology.

Speed can be important here. In our experience, the most successful operating-model transformations tend to complete their main phases in fewer than 18 months.[6] Across both options, these organizations get a running start—for instance, by moving the first 100 people to cross-functional teams early in the transformation to signal individual and organizational commitment to the change. In all cases, the CEO and other senior leaders must model the behaviors and mindset changes that

they want to see and dedicate sufficient time to the transformation.

The right operating model can frame up new value-creating possibilities. It can also be a factor in organizations' ability to cultivate talent. To ensure lasting impact, talent and leadership are essential.

Cultivating talent

Without the right talent, any new organizational model likely won't work. Long before the COVID-19 pandemic, digitization and globalization were already changing how organizations operated and the skill sets that they needed to compete with peers. Finding, developing, and retaining talent now and for the future has become a challenge—but not an insurmountable one. Based on the findings in this report, CEOs and chief HR officers can take three

23%
of organizational redesigns are implemented successfully,

44%
tend to stall, and

33%
fail.

Exhibit 24

There is a direct link between organizational health and financial performance.

2017–22 TSR, by organizational health, %
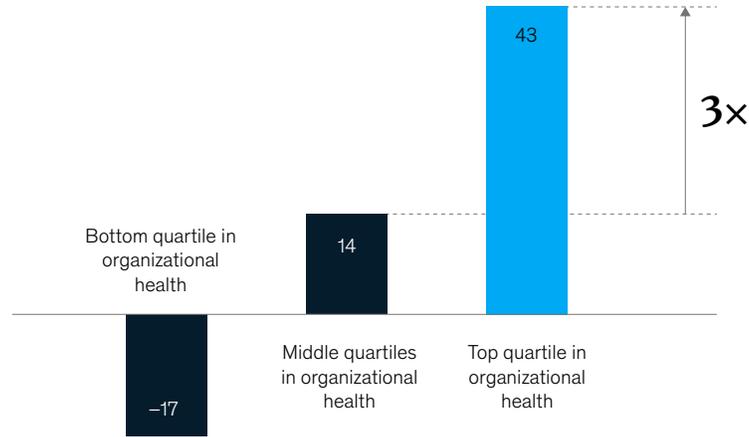
Bottom quartile in organizational health	**−17**
Middle quartiles in organizational health	14
Top quartile in organizational health	43

3×

Source: Corporate Performance Analytics by McKinsey; Organizational Health Index by McKinsey, 50 surveys, 2017–22

concrete steps to balance short-term and long-term needs and manage the talent crunch: value the employees, fill the gaps, and build a deep bench.

Value the employees
Whether trying to meet the needs of existing employees or those of potential joiners, a CEO and other senior leaders must continually review and sharpen their organization's employee value propositions. It's important to tailor these propositions for different individuals and types of workers. The revised employee value propositions should bring to life the things that targeted worker cohorts care about: working in a great company (the organization's culture, values, societal impact), being supported by great leadership (support from caring managers), having a great job (access to coaching, mentorship, and learning opportunities), and achieving great rewards (recognition for a job well done). Business leaders can use advanced analytics and organizational data to identify the employees at risk of leaving and develop interventions specific to the things that the employees care about.

Fill the gaps
To find the people with the skills that organizations need, business leaders should think twice about where they are looking for and the criteria that they

are using to screen candidates. As a result of the COVID-19 crisis, many companies are shifting away from standard hiring processes toward ones that are faster and more candidate friendly—for instance, reducing the time to an offer and giving candidates the opportunity to interview with both potential peers and potential managers. In all cases, a CEO must ensure that equitable hiring practices are in play. Organizational commitment to DEI should be reflected in job descriptions; in employee training, compensation, and benefits; and in advancement discussions. Organizations will need to monitor and measure representation at all levels and functions

and to develop inclusion and retention strategies for those who are underrepresented.

Build a deep bench

With retention and short-term attraction strategies set, CEOs, chief HR officers, and other senior leaders will want to create a deep bench of talent to meet organizations' longer-term talent needs. A CEO will need to work with others across the organization to develop a five-year workforce projection linked to the company's value-creation agenda. Which skills are most critical for delivering on the company's strategy, and what would happen if people with these skills weren't available? With this information in hand, the CEO can build a workforce plan that quantifies skill needs and outlines potential pathways to find the right people—for instance, traditional hiring and capability building, as well as nontraditional options (such as apprenticeships and role redesign). The CEO can also use this workforce plan to prioritize investments in the development or curation of multimodal learning, ecosystem partnerships focused on up- or reskilling, or other means to elevate mission-critical roles and build foundational skills across the organization.

Investing in leadership

If talent is the lifeblood of organizations, leaders are the heartbeat. They are the ones who keep ideas, people, and workstreams moving and who enable an organization to achieve breakthrough performance. Leaders are a heterogeneous bunch, working at different levels and affecting different areas of the organization. But their collective influence matters. McKinsey research shows that an organization is 2.4 times more likely to achieve performance targets if it has a focus on developing leaders and that transformations are more than five times more likely to succeed if leaders model the desired behavioral changes.[7]

Organizations tend to underinvest in leadership development, often aren't clear about which mindsets and behaviors they should focus on building in new leaders, and rarely (if ever) measure the impact of leadership development programs. Consider that only 33 percent of C-suite executives in a McKinsey survey say their capability-building programs always or often achieve business impact, and 45 percent say they don't have a clear plan for building high-priority capabilities.[8]
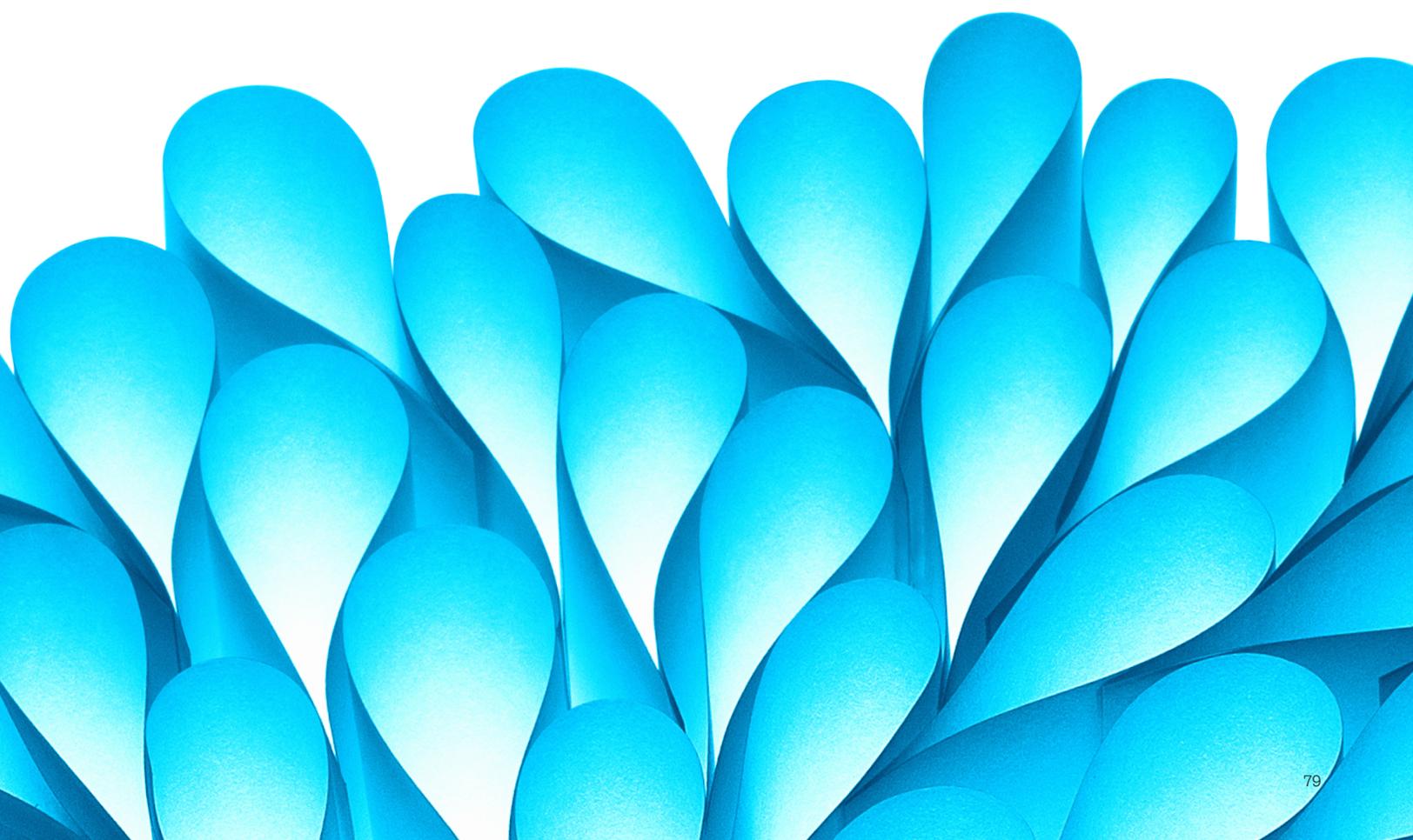
That's likely because most organizations think of leadership development as a program rather than a transformative, holistic, "leading self" journey.

To refocus organizations on the importance of at scale leadership development, CEOs can start by identifying the leadership behaviors required to help their organizations meet strategy objectives and realize stated visions and aspirations. For instance, if an organization is seeking to become more agile, the leadership mindset will need to shift from controller to coach, and the organization will need to establish new processes and structures for individuals and teams who will be working in shorter cycles.

The CEO can then work with senior leaders to commit the resources (finances, people, time, and assets) needed to create a robust leadership development engine that addresses the organization's needs. To sustain the changes, the CEO and other senior leaders should measure the impact of the leadership development efforts: How did leaders' behaviors change? How did employees' behaviors change? How has the culture changed?

Changing behavior at scale

To unleash the full potential of organizations, CEOs will likely need to make changes that affect company health and performance. As anyone who has ever led or worked in an organization understands, at scale change can be difficult to accomplish and even harder to sustain, especially now. Leaders' messages don't always break through to employees who may be working outside of an office, thinking differently about the nature of workplace relationships, and already feeling overwhelmed by the idea of yet another business transformation.

Purposeful communication is a skill and an art.

Change becomes more manageable, however, when CEOs adopt a human-focused approach to it and break it down to its essentials. If organizations need different *behaviors* (the patterns and practices of how employers work), they need to encourage different *mindsets* (what employees feel, think, and value). And to foster those new mindsets, leaders need to change the *system* (the set of the experiences that influence mindsets). CEOs must engage employees' hearts, as well as their hands and heads.

CEOs will need to act in all three of those areas and, perhaps most important, commit to inspiring others by sharing their own personal change stories. In our experience in working with a range of organizations across all industries and regions, at scale change really does need to start from the top. If a CEO acts in a deliberate way and publicly demonstrates support for change, there can be a multiplier effect across the organization. Conversely, change efforts can stall if leaders' words and deeds don't match. Four key change principles—setting bold aspirations, looking for role models everywhere, doubling down on institutional capability building, and making change personal—can help break down the transformation challenge.

Set bold aspirations
Using benchmarks and fact-based targets, CEOs should craft and communicate a bold change story that clarifies both performance goals and associated cultural behaviors—for instance, "We are going to be number one in our market, based on TSR, and we are going to be an organization that leverages the talent of every employee." A corollary to this principle would be "change; don't add!"

Purposeful communication is a skill and an art. To achieve it, leaders, managers, and influencers will need to be prepared to craft and deliver authentic messages that show vulnerability and empathy. Many transformations fall short when CEOs and other business leaders cast them as special projects rather than opportunities to change systems and behaviors for the longer term. If an organization is shifting to a new reporting system, for instance, it isn't enough to offer employees a onetime bonus for using the system. Rewards and incentives should reflect the company's longer-term goal of changing how the business approaches the reporting task overall.

Look for role models everywhere

Change starts at the top, with the CEO. Beacon organizations identify and celebrate early the positive deviants—individuals who are already modeling the desired future behaviors. But it's important to engage a critical mass of people across all levels of an organization to help define opportunities, design solutions, and deliver outcomes. Increasingly, the people with the most social capital aren't necessarily found at the top of the organizational chart. To inspire more commitment to change initiatives, CEOs should tap into the networks of key influencers across their organizations.

One technology company, for instance, used advanced analytics and network mapping to identify the employees with the greatest number of contacts and successfully engaged these employees in discussions involving a large-scale transformation of its operating model. These individuals became effective change champions. CEOs may also want to reach out to leaders of corporate affinity groups to ensure that any proposed change efforts are inclusive and incorporate diverse perspectives.

Double down on institutional capability building

To succeed with transformations, organizations must learn how to learn and double down on their investments in capability building.[9] This will mean evaluating the skills required to succeed with a particular strategy, process, or system change; diagnosing the opportunity gaps; and devising and deploying appropriate training programs (digital and in person). The new skills required may be technical (for example, business essentials and data visualization) or cognitive or emotional (for example, active listening and leading in a hybrid environment) in nature. Either way, organizations can leverage technology—such as digital nudges and training platforms—to reinforce the lessons learned in training programs and to institutionalize behavior changes.[10]

Investment in capability building can pay off over time by improving organizations' ability to attract, develop, and retain top talent. Building the capability of an institution goes beyond individual skills; it includes rewiring some key processes and systems to build the new capabilities into a company. One telecommunications organization explicitly included desired behaviors in the 360° review feedback of its managers. This created ownership and a formal mechanism for feedback, allowing the leaders and the organization to deliver on their aspirations.

Make change personal

Changing employees' behaviors and underlying mindsets requires changing the context in which employees operate. Ultimately it's employees themselves who must decide to change. To encourage them, organizations must give leaders and employees alike the space to explore a proposed change and understand how it relates to their own values and behaviors. An organization might segment employees by how much they would be affected by a proposed change—for instance, senior leaders, middle managers, and frontline employees—and then create tailored change experiences for each group.

An organization might also convene a workshop for leaders in which they could reflect on current behaviors. For instance, leaders could ask, "What did we do—or not do—to create the current environment, and what's our role in changing it?" They could also consider organizational goals against their own personal objectives. Through this exercise, leaders may shift to a learning mindset and view change as an opportunity to test new initiatives and adopt new microhabits.

———

Unleashing an organization's full potential is hard—even harder in today's unsettled business environment. But as our research and discussions with leaders in beacon organizations demonstrate, doing so is very possible with the commitment and collaboration from CEOs and other leaders across an organization, a desire to inspire, and leaders' ability to maintain their bearings in disorienting times.

About the research
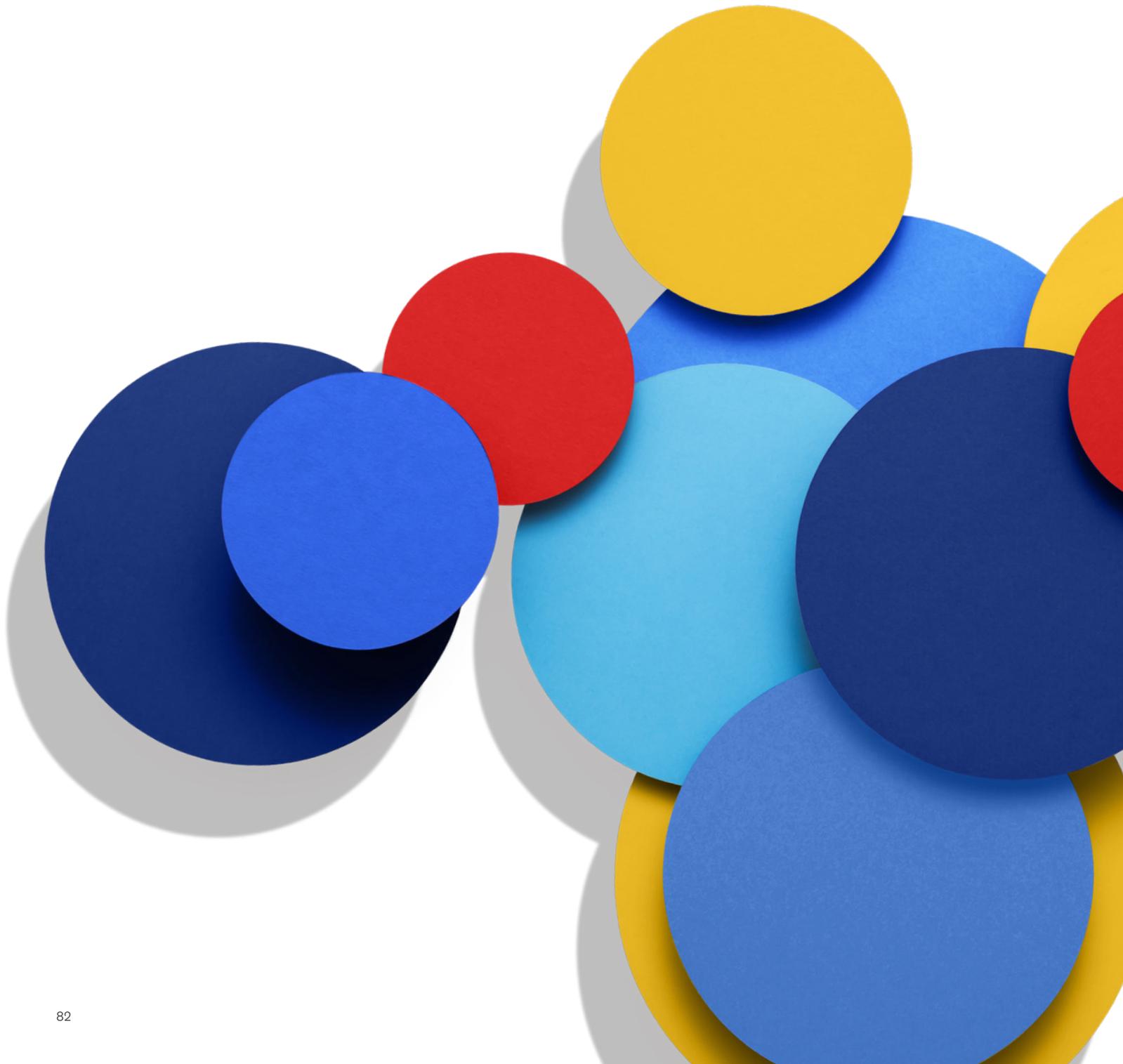
The State of Organizations 2023 report is compiled using data from the latest global McKinsey State of Organizations Survey and interviews with executives at leading organizations. Report contributors have supplemented that information with existing McKinsey research and insight.

Methodology

From May to June 2022, the State of Organizations Survey was in the field and garnered responses from more than 2,500 organizational leaders around the world.[1] The respondents represent leaders and managers in organizations with a minimum of 1,000 employees across nine countries: Canada (218 respondents), China (300 respondents), France (297 respondents), Germany (307 respondents), India (199 respondents), Japan (50 respondents), Spain (110 respondents), the United Kingdom (304 respondents), and the United States (781 respondents).

These respondents represent 16 industries:

- technology, media, and telecommunications (427 respondents)

- consumer and retail (276 respondents)

- advanced industries (230 respondents)

- energy and materials (216 respondents)

- banking (205 respondents)

- public sector (201 respondents)

- healthcare systems and services (185 respondents)

- travel, transport, and logistics (171 respondents)

- professional, scientific, and technical services (163 respondents)

- education (148 respondents)

- infrastructure (105 respondents)

- asset management and institutional investors (62 respondents)

- insurance (58 respondents)

- pharmaceuticals and medical products (49 respondents)

- multisector (38 respondents)

Regional and industry views

This research effort has revealed noteworthy findings for organizations in specific geographies and industries.[2] For instance, levels of optimism about the future vary among respondents in different countries. The number of respondents in India who believe that changes in the broader external environment will ultimately have a positive effect on their organizations' profitability is more than five times the number of respondents in France and in the United Kingdom (and more than three times the number of respondents in China) who report that belief (Exhibit 25).

Exhibit 25

Survey respondents' optimism about how the broader business environment will affect profitability varies across countries.

Positive impact of changes in broader environment on organization profitability,
% of respondents (n = 2,406)[1]

India	China	US	Canada	Germany	UK	France
72	45	35	28	26	14	14

[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents: How will changes in the broader environment (eg, the economy, consumer sentiment) affect your company's profitability?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany, India, Japan, Spain, UK, and US, May–June 2022

Exhibit 26

Survey respondents' readiness to address future opportunities and challenges varies across industries.

Organizational readiness to address industry opportunities and challenges,
% of respondents (n = 2,222)[1]
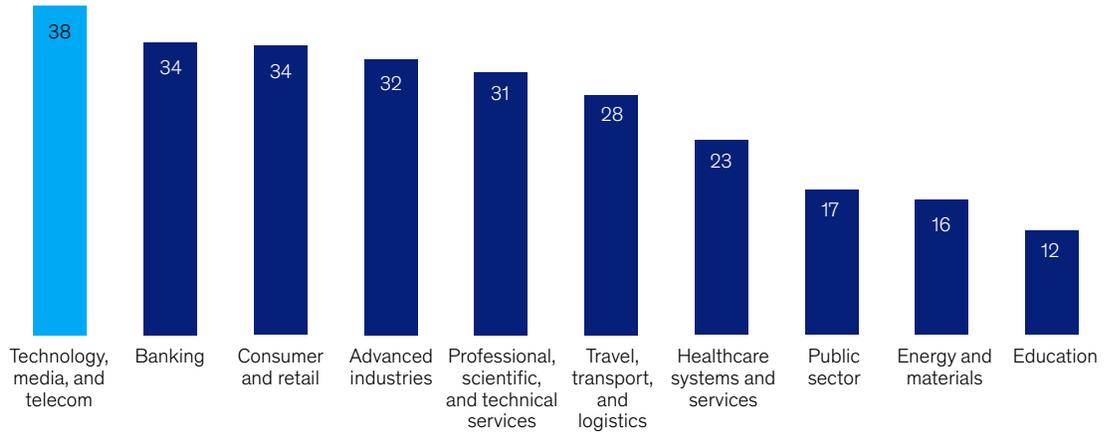
[1]All respondents were asked to select the top 3 trends for their organizations. For these data, an additional question was posed to a subset of respondents:
How ready (by measures such as capabilities, culture, structure, and processes) is your organization to address the opportunities and challenges of your industry?
Source: McKinsey State of Organizations Survey, >2,500 leaders in organizations with ≥1,000 employees across industries in Canada, China, France, Germany,
India, Japan, Spain, UK, and US, May–June 2022

Additionally, the data show different levels of preparedness for what comes next across a range of industries. For instance, almost 40 percent of leaders and managers in the technology, media, and telecommunications sector feel that their organizations are ready to address the industry's future challenges and opportunities, but only 12 percent of those in education say the same (Exhibit 26).

Regardless of location or industry, however, there are opportunities for all organizations to unleash their full potential and thrive in 2023—if they stay abreast of key trends and heed lessons from the organizations that are experimenting and starting to get it right.

There are opportunities for **all organizations to unleash** their full potential and thrive in 2023.

Endnotes

INTRODUCTION

10 shifts that are transforming organizations—and what to do about them

[1] In this report, "mental health" is inclusive of positive mental health and the full range of mental, substance-use, and neurological conditions.

[2] Between May and June 2022, we surveyed more than 2,500 leaders in organizations with at least 1,000 employees across industries and countries (Canada, China, France, Germany, India, Spain, the United Kingdom, and the United States) to identify the workplace topics that were most relevant to them in McKinsey's State of Organizations Survey. We supplemented that quantitative research with executive interviews and existing McKinsey research.

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CHAPTER 1

Increasing speed, strengthening resilience

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CHAPTER 2

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About the research

[1] We undertook a rigorous translation process to ensure that the translations of the survey would yield common responses among native speakers of Chinese, English, French, German, and Spanish. To be eligible for the survey, participants had to be native speakers of one of those languages.

[2] These analyses include only the geographies and industries with sufficient representation within the data set (5 percent or more) to draw meaningful conclusions.

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