



THE HEAD, HEART, AND HANDS OF TRANSFORMATION

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THE HEAD, HEART, AND HANDS OF TRANSFORMATION

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A REIMAGINED APPROACH TO TRANSFORMATION

IT IS RARE THESE days, as digital transformation sweeps the business landscape, to meet a business leader who hasn't either recently led or been part of a transformation. Once a one-off event in response to an urgent need, transformation is now the new normal. In fact, it has become so commonplace that we have dubbed this the era of "always-on" transformation.

Yet from experience we know that transformation continues to be very difficult, and the evidence shows that it often fails or falls short of expectations. Moreover, it can exact an enormous toll on leaders and employees, who are constantly being asked to step up, reach further, move faster, and adapt to change, with no end in sight. For leaders and employees alike, it's less a marathon and more a triathlon; no sooner does one leg finish than another is under way, giving participants no chance to catch their breath before giving their all once again. Still, many organizations overcome the odds; some even achieve lasting results. How do these companies succeed where others fail?

While there is no one-size-fits-all method, our work with and extensive research into organizations that have transformed point to an approach that combines three interconnected elements. It involves thinking expansively and creatively about the future that the organization aspires to and focusing on the right

strategic priorities to get there. It addresses the unrelenting, ever-shifting, ever-growing demands on employees by elevating the importance of actions that will inspire and empower people at all levels of the organization. And at a time of rapid change and disruption, it calls for more than just applying the appropriate means and tools to execute; it calls for companies to innovate *while* they execute—and do both with agility.

In other words, transformation in the new digital era requires a holistic, human-centric approach that enables organizations to succeed today and thrive tomorrow, one we call the Head, Heart, and Hands of Transformation. It is the attention to all three elements that enables organizations to overcome the odds. In this report, based on a study of more than 100 companies that have undergone transformations, we reveal which elements are essential and which are the most neglected—and why. We explain how to activate head, heart, and hands to the fullest. We describe the new imperatives for the more established elements of head and hands and define the set of critical heart factors. We also offer stories that illustrate the power of head, heart, and hands, and that, we hope, will inspire leaders to embrace this reimagined approach to transformation.

THREE CHALLENGES IN THE ALWAYS-ON ERA

HISTORICALLY, TRANSFORMATION HAS BEEN a reaction to a burning platform or an emergency—a dire competitive threat, sagging performance, an overdue process overhaul, or a post-merger integration. Today, however, organizations transform from a variety of starting positions. Some need to move quickly to improve the bottom line. Others enjoy respectable performance but lack a clear path to enduring success. All, regardless of industry, are becoming digital, which, like the technologies themselves, is an ever-evolving process. Many companies are not in crisis; rather, they're in need of rejuvenation, ready to imagine a new destiny and perhaps even to increase their contribution to society. And increasingly, companies transition from one transformation to another, without pause. Whether reactive (to address current business performance) or proactive (to build from a position of strength), transformation in this fast-changing, always-on digital era requires a fresh approach, one that is both holistic and human centric.

Consider Microsoft's circumstances only a few years ago. In February 2014, when Satya Nadella took the helm, the company was at a pivotal moment in its history. Microsoft was by no means broken: revenue growth was healthy, the average operating margin over the previous five years was just under 35%, and the company had \$76 billion in cash and short-term investments. Yet there were strong head-

winds: Market share of Windows had declined. Microsoft had failed to capture the mobile wave. The ink was barely dry on the Nokia handset acquisition, and it was already being regarded as a mistake. Competitors—and customers—were moving aggressively to the cloud, outpacing Microsoft's efforts. And the culture had become insular and competitive, as depicted in a now-famous meme showing managers in different corners of the organization chart shooting guns at one another.

Organizations today transform from a variety of starting positions.

In the four and a half years since Nadella took over, Microsoft's performance hasn't just improved; it has flourished. Revenue in fiscal year 2018 hit \$110.4 billion, up from \$86.8 billion in 2014; cloud-based revenue alone jumped from \$4.4 billion to \$18.9 in three years. The company's stock price has more than tripled, from \$36 on the day before Nadella's appointment was announced to \$111 in mid-October 2018. Its market capitalization is approaching \$1 trillion, putting the company in a rarified league. And its annualized TSR, 26.5%, is twice that of the S&P 500. Perhaps most important, the company now

boasts a visibly new culture of cooperation and a renewed commitment to innovation.

Microsoft's transformation has been remarkable in its scale, scope, and speed. It has been the result not of a single move but of many changes orchestrated in parallel that have touched every part of the organization. Nadella honed a mobile-first, cloud-first vision, aligning his deputies and leaders around it and dramatically shifting resources toward transformation priorities that would accelerate innovation and promote growth. In other words, he addressed the *head* of transformation. He articulated a new purpose—"to empower every person and organization on the planet to achieve more"—and fostered a new culture and leadership model, thus tending to the *heart* of transformation. And he unleashed new ways of working that have not only enabled execution but also spurred innovation and agility; that is, he equipped the *hands* of transformation.

Microsoft's transformation has reinvigorated a maturing company, positioning it to define and embrace its future with the strength and agility needed to thrive in a fast-changing, tumultuous business landscape.

Transforming not merely to survive but to thrive entails addressing three broad challenges, crystallized in these questions:

- **How do we create our vision for the future and identify the priorities to get there?** Like many companies, Microsoft

faced short-term performance pressures. But it also faced an even bigger challenge: reconciling multiple strategic options to envision a different future amid shifting customer needs, evolving technologies, and increasing competition.

- **How do we inspire and empower people?** Always-on transformation can be exhausting; the relentless pace can demoralize even the most engaged employees. Sustaining it while offering employees meaningful opportunity and fulfillment—intrinsic rewards that millennials and “digital natives” seek—adds substantial complexity to the challenge.
- **How do we execute amid constant change?** Changing the business once meant executing from a playbook of primarily short-term, discrete actions. But transforming to thrive in the future often requires disrupting existing business models and value chains to solve customer needs—and doing so at digital speed. Today, when changing the business means simultaneously executing and innovating with agility, a conventional approach to execution is no longer enough.

Taken together, these three challenges can seem overwhelming. But they need not be. Fortunately, we can learn from companies like Microsoft that have been reimagining their approach to transformation—and thereby seeding the conditions for a promising future.

THE POWER OF HEAD, HEART, AND HANDS

WHAT ACTIONS CONSTITUTE THIS fresh take on transformation? And what sets it apart from more traditional approaches?

- **The Head: Envision the future and focus on the big rocks.** In the digital era, constant change makes it harder to commit to a view of the future; yet providing direction to the organization remains essential. That means companies and their leaders must draw on their strategic thinking, their imagination, their knowledge of customer needs and desires, and their pool of expertise, experience, and wisdom to forge an aspirational vision of a digitally enabled, growth-oriented future. They set priorities, focusing on the “big rocks” that will deliver results and create enduring value.¹ They secure the alignment and commitment of the leadership team. And they establish and communicate a compelling case for change, internally and externally.

In the past, these actions might have been one-and-done moves, distinct from the daily rhythms of business. But today, because the environment is constantly shifting and these strategic actions generally affect the whole enterprise, they must be revisited and updated on an ongoing basis (ideally, annually) and be integrated into the operating model of the organization.

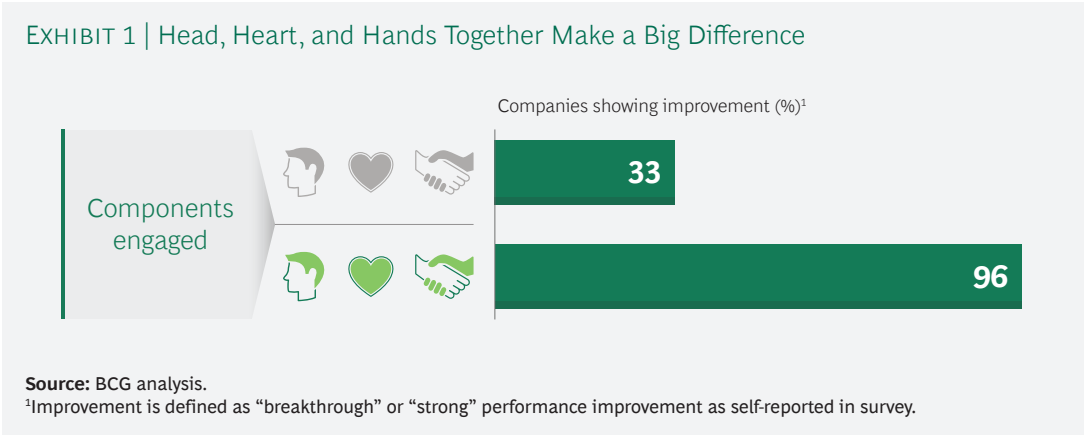
- **The Heart: Inspire and empower your people.** When transformations were viewed as one-off, short-term programs, inspiring and empowering people wasn’t seen as being essential to them; in fact, people were often treated as a means to an end or, worse, as collateral damage. But successful transformation today depends on people who are engaged and motivated to go above and beyond. Organizations can create this condition through a set of heart “practices.” What does this mean? Leaders invest time and energy in articulating, activating, and embedding the organization’s purpose. Companies create an empowering culture, shaped by leaders, that allows people to do their best work. They also demonstrate care for those whose lives are disrupted by the change—not only departing employees but those who remain to carry out the new vision. Finally, senior managers exercise a more holistic form of leadership: they clarify and navigate, they include and empower, and they delegate and enable their people and teams.
- **The Hands: Execute and innovate with agility.** Executing a prescribed set of actions used to be enough to generate short-term bottom-line improvements. In this new era, when the future is unclear and the present is constantly changing, organizations need to innovate as they

execute, and do both with agility. Consider this: Rather than delegate responsibility for execution to a transformation program owner (who occasionally updates leaders), companies give joint ownership of the ongoing transformation agenda to senior leaders. They ensure disciplined execution by equipping teams with the resources they need to make sound, prompt decisions. Companies also apply innovative methods and digital tools, and institute agile ways of working, to accelerate output and remove impediments, and enable end-to-end focus on the customer. Whereas building organizational capabilities was often an afterthought, today companies build capabilities while carrying out the transformation.

The head, heart, and hands approach to transformation is most powerful when each element is fully deployed. For this reason, the three elements should not be viewed as sequential actions but as three vital sets of activities that should happen in parallel—a holistic system.

Evidence of the impact of this approach is striking. We analyzed more than 100 companies across industry sectors, 85% of which had pursued three or more transformations, and we conducted in-depth interviews of leaders involved in these efforts. We asked whether the companies had addressed the actions consistent with the three elements, and then correlated the response with their subsequent performance. Ninety-six percent of the companies that fully engaged the three elements achieved sustained performance improvement, a rate nearly three times that of companies that did not engage the elements. (See Exhibit 1.)

NOTE
1. “Big rocks” is a reference to Stephen Covey’s famous demonstration of setting priorities: filling a large mason jar with rocks (the most important things), then gravel, then sand, and finally water (items of lesser importance that can be fit in).



THE NEGLECTED HEART AND HANDS

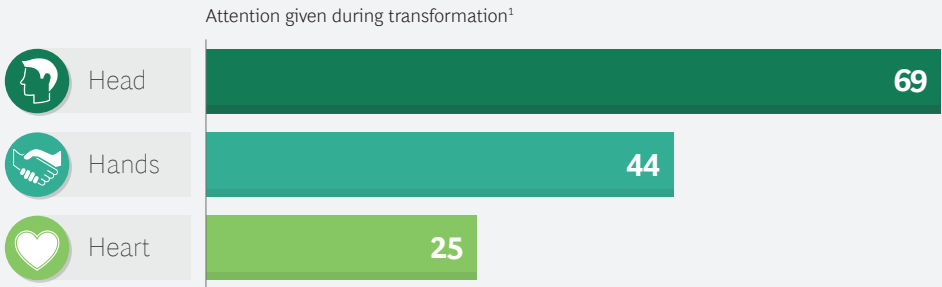
WHEN WE ASKED SURVEY respondents about the relative attention given to each of the three elements during transformation, the head consistently got the highest rating, followed by the hands. The heart came last. (See Exhibit 2.)

To be clear, we’re not saying that the hands are always overlooked: many companies form a transformation management office and mobilize teams to plan and implement the transformation. Some even monitor those teams to be sure that they are delivering results. But companies often go no further than these table stakes actions. To deliver on the need for breakthrough solutions in a constantly changing environment, teams need to be organized

in such a way that they can innovate with agility. This requires new ways of thinking and working.

The typical command-and-control style of leadership and siloed structure of most organizations limit opportunities for cross-functional cooperation and impede rapid decision making. Many leaders, unaware of just how essential the new requirements are, neglect to adjust the operating model and ways of working accordingly. Even where leaders understand the need for new ways of working, more immediate pressures and competing priorities often prevail, so leaders end up adhering to execution playbooks that do nothing to foster innovating with agility.

EXHIBIT 2 | The Hands and Heart Are Neglected



Source: BCG analysis.

¹These numbers represent a measure akin to the Net Promoter Score, expressed as the balance of agrees (positive) vs. disagrees (negative) to questions about the presence of features of head, hands, and heart. It is computed as follows: sum of agree and strongly agree minus the sum of disagree, strongly disagree, and neither agree nor disagree, normalized by all non-N/A responses. Its scale is +100% to -100%.

It's easier to understand why the heart is neglected. Pragmatic considerations, such as cost reduction and other short-term efforts to improve the bottom line, often win out in the competition for resources. In addition, it takes time and effort to conceive and activate heart strategies, and time is in short supply. Furthermore, from an accountability standpoint, it's not obvious where the ownership of heart belongs; traditional organizational structures hinder the cross-organizational dynamics that the heart needs to do its work. The heart's impact is harder to measure; its relationship to P&L or standard value creation metrics, for

example, is not explicit. Finally, the further removed decision makers are from employees, the less noticeable the fallout from neglect.

It's only fitting that the heart—as the metaphorical center and source of inspiration and power—is at the center of this holistic approach, positioned between the head and the hands. For the purposes of discussion, however, we address the elements in order of the attention they receive during transformation. In the pages that follow, we explore first the elements of the head, then of the hands, and finally of the heart.

THE HEAD OF TRANSFORMATION

ENVISION THE FUTURE AND FOCUS ON THE BIG ROCKS

WHETHER A COMPANY IS experiencing performance pressures or is starting from a position of stability or strength, leaders should invest their time, energy, and imagination in envisioning the future to which they aspire. How do we meet the needs and desires of our customers? What strategies will fuel value creation in existing markets? Where can we find growth, in the core and beyond? How can we leverage the disruptive power of digital and other new technologies—data and analytics, personalization, automation, and AI? How do we free up resources to fund the longer-term journey?

Leaders need to invest their time, energy, and imagination in envisioning the future.

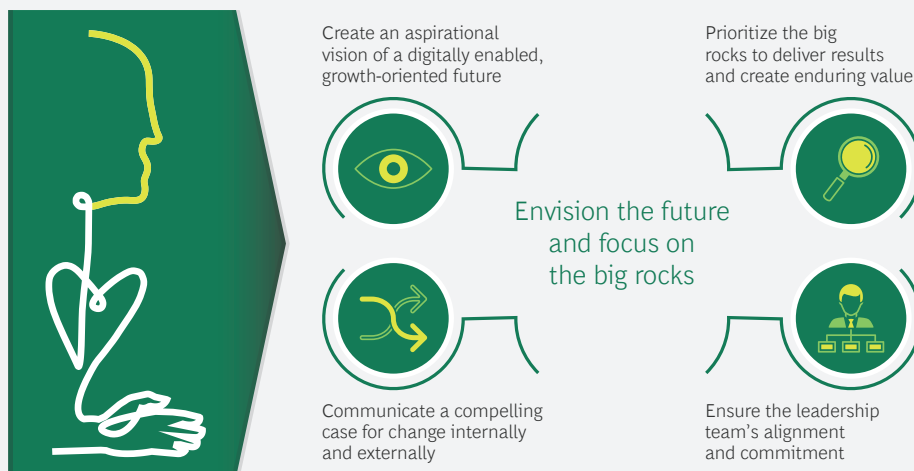
With survival-based transformation, it's only natural that more of the “head” activities will be devoted to generating immediate bottom-line results. Leaders define a strategy; set the appropriate level of ambition (the scope and pace of change) through a detailed roadmap and milestones; secure the buy-in and accountability of managers at all levels; and make the case to employees and external stakeholders. (See Exhibit 3.) But in this era of constant change, even companies in

survival mode must do what “fair-weather” transformers do: identify growth-oriented strategies and innovative business models that will support the aspirational vision, while carrying out continual transformation. These activities and practices are treated as works in progress, to be steadily iterated on and continually adapted and refined as the company gains insights and as the environment changes.

Consider the head aspects of Microsoft's approach to transformation. Nadella saw the need to pivot the company away from its PC-centric stance to a mobile-first, cloud-first orientation. He shifted investments almost wholesale toward the cloud, a move that has since been revised to encompass intelligent-edge computing alongside the intelligent cloud.¹ Nadella made the senior leadership team accountable for solving this and other pressing strategic issues, including how to close the gap with Amazon Web Services and what to do with the Nokia handset acquisition.

In addition, Microsoft evolved its innovation model, in many instances embracing modern ways of working such as agile, DevOps, and test-driven development. It also transformed its go-to-market strategy to embrace digital demand generation and fulfillment, and shifted its sales force to a compensation model that rewards cloud service consumption rather than just the signing of deals.

EXHIBIT 3 | The Head of Transformation



Source: BCG analysis.

To galvanize their commitment, Nadella rallied senior leaders around a shared vision for the future. To ensure that team members stay aligned—and to demonstrate to everyone the importance of shared ownership from the top—he and the team convene every Friday to align on opportunities to pursue and make companywide decisions. Nadella, recognized as a voice of change by customers, partners, and investors, sees himself as the beacon of change agents among the senior leadership team and throughout the organization as a whole. To reinforce the company's customer focus, leaders added metrics that track usage, engagement, uptime, and reliability, among other things, to their regular monitoring tool kit. The new suite of measures reflects customers' interests more accurately than standard (and more near-term) performance metrics.

Another powerful example of the head of transformation comes from Qantas. (See the sidebar "Forging a New Vision and Focusing on Strategic Priorities at Qantas.")

NOTE

1. Intelligent-edge computing refers to moving data and computing to the "edge" of the network, closer to data sources. It entails connecting online and offline data from multiple sources.

FORGING A NEW VISION AND FOCUSING ON STRATEGIC PRIORITIES AT QANTAS

In the late 2000s, competition from low-cost and Middle Eastern carriers had eroded Qantas's market share and unleashed a capacity war. These challenges, compounded by escalating fuel prices, caused Australia's flagship carrier to suffer its biggest-ever annual loss (A\$2.8 billion), in 2013. That year, leaders undertook a turnaround to cut costs and increase revenues. With their eyes on securing the company's long-term vitality, they completely reassessed Qantas's strategy, operating model, values, and culture. A formal transformation was launched in 2014.

Leaders envisioned a future focused on the customer and on new ways of working. From this vision, they mapped out a strategy and transformation program, rather than intermittent initiatives.

Separating the domestic and international businesses so that each would have its own bottom line was a critical step. For the domestic business, accelerating turn times was crucial to competing effectively. For the international business, success hinged largely on shifting out of slow-growth, low-margin, and highly competitive markets to faster-growing, more lucrative markets in Asia. To expand capacity and

reach (and aid fleet utilization), Qantas looked to a different model: network partnerships. To improve the customer experience, Qantas looked largely to digital mechanisms: amenities (such as Wi-Fi, auto mobile-device check-in, permanent baggage tagging, and a Facebook-based concierge program) as well as data and systems that enable targeted and more personalized communications. Qantas also focused on diversifying its loyalty program, leveraging its 12 million-strong membership base to support its entry into new sectors, such as insurance and financial services.

Qantas's efforts to envision a different future have thus far yielded remarkable results—while laying the foundation for sustained high performance. Since 2013, pretax profits have grown sevenfold and operating margins have more than quadrupled. In 2018, the airline won the number-two ranking in the World's Top Ten Airlines list. Qantas is today considered one of Australia's top ten "most trusted brands." (The company's heart efforts are equally impressive and have also figured prominently in the company's continued success; see p. 18.)

THE HANDS OF TRANSFORMATION

EXECUTE AND INNOVATE WITH AGILITY

BY NOW IT'S A well-established fact: without disciplined execution, the most lucid vision and the most rock-solid game plan are of limited value. Yet in the digital era, even disciplined execution is table stakes. As organizations contend with constant change and, increasingly, with always-on transformation—where overlapping initiatives create a recurring triathlon of launch-deliver-sustain—it takes even more to thrive. Speed to market, now instrumental to competitive advantage, demands faster, more diffused decision making. Because competitive dynamics shift more often, winning increasingly means disrupting. Disruption, by definition, requires coming up with innovative solutions. This, in turn, requires not only a well-oiled execution machine but also empowered teams that can innovate while they execute, deploying agile ways of working. And as those teams are expected to work in new ways, they inevitably require new capabilities, which must be developed in real time.

The hands of transformation encompass four imperatives that, when fulfilled together, enable organizations to innovate as they are executing a transformation—and do both with agility. (See Exhibit 4.)

Ensure executional discipline and set teams up for success. Disciplined execution has always depended on a tool kit of proven practices and methodologies—for example,

well-structured and -staffed teams, clear milestones, and progress tracking to ensure that teams are delivering tangible outcomes needed to meet the overall transformation goals. Strong governance mechanisms (namely, a transformation management office and a steering committee) remain equally crucial. These practices, already followed by many companies, are as relevant as ever. What's different today is their interdependence with and adaptation to the following “hands” elements.

In the digital era, disciplined execution is table stakes.

Entrust your best leaders with the big rocks and ensure ongoing cooperation. It wasn't so long ago that transformations were treated as one-off programs, usually executed on the side by a small, isolated group, while the company focused on day-to-day business. Transformation happened by working around, and often against, the existing organizational structure, such as the siloed design still common at many companies.

Workarounds, however, only work for so long. The breadth of strategic initiatives likely under way today requires extensive cooperation across the organization to ensure that initia-

EXHIBIT 4 | The Hands of Transformation



Source: BCG analysis.

tives are prioritized and sequenced logically and efficiently; think of the effort involved in simultaneously managing such big rocks as improving price realization (to fund the transformation), fueling growth beyond the core business, and developing new business models. Leaders also need to rethink how they engage their businesses to inspire excitement about contributing the resources required. An extra set of hands here and there is no longer enough to produce success. Fostering cooperation in the midst of constant change also requires leaders to shift from a command-and-control way of operating to one that empowers: one based on communicating the shared vision, removing obstacles, and encouraging more diffused decision making.

Apply innovative methods, digital tools, and agile ways of working. Speed and adaptiveness, along with the ability to rapidly change course, are imperative in the digital era. Companies cannot afford a timeout on innovation during transformation; at the same time, innovation should be an integral part of transformation efforts. Companies need to move from merely executing a transformation to executing while innovating with agility.

Instead of an envision-finalize-release approach (in software, the “waterfall” approach), innovation happens best in a test-learn-scale cycle, even if the outcome is

uncertain at the outset. This applies as much to transformation initiatives—for example, launching a new product as part of a business model change, creating new services within a digital transformation effort—as it does to business-as-usual product development.

Flexible and modular organizational structures—specifically, small, multidisciplinary, empowered agile teams that are assigned clear roles and responsibilities—support this approach. In fact, agile teams and practices can even be deployed to conceive transformation initiatives. For example, multidisciplinary teams can identify initiative resource requirements in real time without experiencing input delays; this allows them to spot potential transformation problems and address them earlier in the execution sequence—while allowing the organization to course correct more broadly, if need be. Digital tools accelerate transformation because they enable transparency, collaboration, and the rapid dissemination of ideas. Practices such as co-location, daily standups, backlog prioritization, working in sprints, developing MVPs, testing with customers, and fast-cycle learning foster creativity and agility.

Build capabilities while executing. To enable teams to execute and innovate with agility, companies no longer have the luxury of treating capabilities building as an afterthought or even as a preliminary step;

instead, it must happen throughout the transformation. For example, frontline employees can be closely involved in executing transformation initiatives so that they build new skills and knowledge on the job, in real time.

Building organizational capabilities needed to transform involves not only identifying the relevant competencies and skills but also implementing strategies to attract, develop, engage, and retain the right talent. It's worth noting that although acquiring talent is often the fastest route to building a strong bench, it is not always the easiest one nowadays, when the demand for digital talent far exceeds the supply. (This imbalance, moreover, is likely to

persist; see *How to Gain and Develop Digital Talent and Skills*, BCG Focus, July 2017.)

Often, building capabilities also involves modifying organizational structures, operating models, and functional interfaces so that organizations can deploy each individual's talent and skills most effectively. Agile ways of working, particularly during a transformation, provide natural opportunities for development by stretching employees in new roles, encouraging them to challenge the status quo, promoting efficient execution, and allowing people to learn from others on the job. (See the sidebar "A Capabilities Compact Between Bank and Employees at ING Netherlands.")

A CAPABILITIES COMPACT BETWEEN BANK AND EMPLOYEES AT ING NETHERLANDS

ING Netherlands is widely known as an agile pioneer. The bank's Craftsmanship framework is a perfect example of a day-to-day, ongoing effort to build employee capabilities suitable for agile ways of working.

The framework makes each employee responsible for identifying his or her strengths and core motivations (such as professional advancement or fun). The bank pledges to create appropriate challenges for every employee and provide a

trusting environment that encourages experimentation and makes it safe to fail.

In return for its investment in employees' individual development, ING expects people to take ownership of their professional development: to continually hone their skills and expertise; become more customer-focused, agile, and adaptable; and grow professionally and personally. By doing so, each employee becomes more valuable to the bank and more marketable in general.

THE HEART OF TRANSFORMATION

INSPIRE AND EMPOWER YOUR PEOPLE

PEOPLE, WORKING AS INDIVIDUALS and in teams, are the lifeblood of successful transformation. Transformation requires their effort, engagement, alignment, and willingness to go the extra mile. But in practice, the importance of people in transformation is often neglected. Many organizations focus so intently on the head (and to a lesser extent on the hands) that people end up being treated as expedient or even dispensable.

In the era of always-on transformation, the consequences of this neglect can be great, as people grow exhausted from keeping up with the latest technologies and adapting to relentless change. For all these reasons, our discussion of heart requires more detail than that of head and hands.

Successful transformation takes heart. The heart serves as an apt metaphor, capturing the essence of the vital, life-giving source of power that people need to effect change. Think about some of the most common heart-related expressions: the heartbeat of [fill in the blank], pour your heart into it, not for the faint of heart, from the bottom of my heart, the heart of the matter.

How can organizations develop a strong, healthy heart to inspire and empower people? In the context of transformation, we see four imperatives (akin to the heart's four chambers). The heart embodies *purpose*,

which guides and imbues meaning to one's work. The heart embraces *culture*, the behaviors and values that create an environment in which people can do their best work. The heart represents the *care and compassion* needed by those whose lives are being disrupted. And the heart symbolizes the central role of *leadership*: clarifying and navigating; including and empowering; and delegating and enabling people to overcome challenges and adversity. (See Exhibit 5.)

Each of these aspects, like the atria and ventricles of the heart, works in concert to perform the heart's complete job: empowering and enabling people to give life to the transformation. (See the sidebar "Healthy Heart, Strong Performance.")

ACTIVATE AND EMBED PURPOSE

Increasingly, employees seek much more than a paycheck or tangible rewards; they are looking for intrinsic motivations, such as meaning, connection, and joy. They want to contribute, develop, and achieve. Organizations with purpose tap into those needs, producing a virtuous circle of benefits.

Purpose is an organization's "why"—its existential reason for being. It defines the organization's distinctive strengths and the need it fulfills in society and for its customers, employees, and communities. In the era of always-on transformation, purpose

EXHIBIT 5 | The Heart of Transformation



Source: BCG analysis.

has become more important than ever. It fuels transformation by fostering an emotional connection that inspires greater commitment and willingness to go the extra mile. Purpose serves as that vital North Star, illuminating a direction as it links an organization's various transformation efforts in a way that is logical and accessible to everyone. But for purpose to have power, it must be more than a superficial statement—it needs to be translated into action. (See *Purpose with the Power to Transform Your Organization*, BCG Focus, May 2017.)

When Nadella took the helm of Microsoft, he asked the existential question: Why does Microsoft exist? Founder Bill Gates's original mission statement—"A PC on every desk and in every home"—had served the company well. But Nadella was convinced that the future required something more aspirational and inspirational. His answer—"To empower every person and every organization on the planet to achieve more"—has infused every strategic decision and every aspect of Microsoft's transformation. (For another example of how purpose helps fuel transformation, see the sidebar "Purpose Helps Catalyze Change at National Australia Bank.")

CREATE AN EMPOWERING CULTURE

Culture is the lifeblood of the organization, sustaining energy and health. Culture comprises a clear articulation of the values and

behaviors that define how things get done in an organization. Activated by leaders, culture is reinforced and sustained by the organizational environment, or context: for example, through such levers as customer service standards and rituals, performance management systems, people development practices, and informal interactions. A healthy culture serves as a tacit code of conduct that steers individuals to make choices that advance the organization's goals and strategy. It can also serve as a magnet for talent. And in the digital era, when self-direction and team autonomy are emphasized, a strong culture is particularly important. (See "It's Not a Digital Transformation Without a Digital Culture," BCG article, April 2018.)

Microsoft's Nadella believed that without culture change, the company's transformation would fail. Indeed, culture is the one constant in his "3 C's" view of organizational success (concept, capabilities, and culture)—the enduring element that enables the other two. To shift away from a culture of internal conflict and competition, Nadella and his team defined attributes for a new culture, chief among them a personal "growth mindset," which reflects the emphasis on individual learning and development. Microsoft's new culture also focuses on customer obsession, collaboration ("One Microsoft"), diversity and inclusion, and making a difference. To activate and embed the target culture, senior

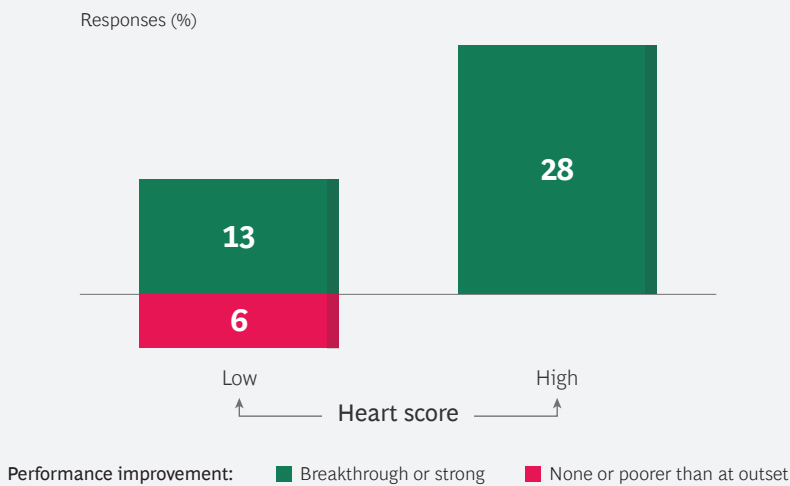
HEALTHY HEART, STRONG PERFORMANCE

The heart’s impact on transformation results is measurable—and compelling. In our survey (cited earlier), we derived “heart scores” for the companies based on their responses to a battery of questions about the characteristics and impact of their transformations. Among the companies that experienced strong sustained perfor-

mance, the proportion with high heart scores was more than double the proportion of those with low heart scores. Moreover, a substantial proportion of low scorers performed more poorly at the end of the transformation than at its start. (See the exhibit.)

The Heart Is Critical for Achieving and Sustaining Performance

Of the companies with long-term high performance, twice as many had high heart scores



Source: BCG analysis.

Note: For simplicity, we do not show scores in the middle ranges.

management called out unacceptable behaviors and reinforced desired behaviors by aligning key metrics, performance management, rewards and incentives, and leadership development. Targeted changes in the organization structure have, in aggregate, fundamentally changed Microsoft’s business.

Similarly, at Qantas, leaders understood from the get-go that the ticket to sustained performance was the right culture along with the right kind of leadership. Says Jon Scriven, former group executive of HR, “If we could get the culture right, the rest would take care of itself.” To shift from a command-and-control style of leadership, Qantas put thousands of senior-level, frontline, and supervisory leaders through leadership development programs, including several focused on the

new desired behaviors: becoming better listeners, learning to coach, and empowering people.

Qantas has also kept its commitment to training those on the frontlines, including the intensive training of 12,000 cabin crew members on handling difficult customer interactions. The training is also designed to strengthen team members’ rapport. The company achieved record employee engagement—80% among its 30,000 employees—in 2017, a level it has sustained this year. Rewards and recognition programs allow employees to nominate one another. The Next Step program is aimed at connecting employees to the company strategy, rekindling their passion for the company, and reinforcing the focus on the customer.

PURPOSE HELPS CATALYZE CHANGE AT NATIONAL AUSTRALIA BANK

National Australia Bank, Australia's largest business bank, has 9 million customers throughout Australia, New Zealand, and Asia. To better serve customers and drive new growth opportunities, NAB launched a multiyear transformation that, like Microsoft's, was conceived of holistically. From the start, leaders were mindful of addressing the head, heart, and hands of the transformation. The bank's efforts related to purpose are particularly noteworthy.

To guide and inspire the overall transformation, leaders embarked on a process to discover and articulate NAB's purpose, landing on "Back the Bold Who Move Australia Forward." NAB then launched a massive effort to activate purpose, dispatching leaders across the nation over several weeks to engage people in dozens of group discussions.

The bank is also taking action to embed purpose throughout the organization, chiefly by aligning its vision, values, and behaviors with its purpose. In "purpose catalyst sessions," for instance, teams reflect on how they live the purpose through their values and behaviors, share their purpose-related experiences, and brainstorm ideas and actions to live the purpose. NAB has also been mobilizing leaders and aligning rituals, practices, processes, and policies to reinforce its purpose and culture. For example, the bank holds "customer huddles" to zero in on customer needs and solutions; it has enhanced its onboarding process, taking extra care to help new hires understand the organization and what is expected of them; and it has raised the profile of its Banker Recognition awards in order to acknowledge those who bring purpose to life.

DEMONSTRATE CARE

Layoffs, redeployments, and reskilling are inevitable in the era of always-on transformation. Even companies that are transforming from a position of strength will likely have to restructure their workforce to add talent—in particular, people with digital skills and experience that align more closely with the future needs of the business. Such workforce turbulence can be traumatic not only for those who are laid off but also for those who remain, and, if left unattended, can undermine morale and progress. At the very least, transformation can disrupt employee cohesion, and it almost always puts extra demands on people. So how companies act toward employees has a huge impact on their engagement, both during and beyond the active phases of transformation.

The company's behavior also affects the market's and public's perception of the company, which in turn affects the company's ability to attract and retain talent. In some industries, it can even attract regulators' attention. People (especially those disrupted by the change) will not forget how the company changed

and how it managed things. For all these reasons, leaders must demonstrate care, compassion, and empathy—and not just through their words.

For example, it is critical that leaders continue to solicit the input of employees who remain (say, through pulse checks or broader two-way communications) and actively, visibly address their concerns. At a pharmaceutical company undergoing a merger, a routine pulse check revealed that employees felt a lack of resources in their day-to-day work. In response, senior leadership agreed to reprioritize work and, where possible, to reduce noncritical demands. To help employees who are leaving, companies can offer a battery of program options beyond the standard outplacement services. They can assign coaches, who help individuals create a personal roadmap, and provide job-market information sessions, resources for financial advice, vocational training, and even guidance on entrepreneurship.

LEAD WITH THE HEAD, HEART, AND HANDS

Many things are important to the success of transformation, but nothing more so than

leaders. While they play many roles, leaders embody the heart of transformation. The kind of success that positions organizations to thrive in the future requires leaders who are actively and continuously engaged in the head, heart, and hands of transformation, playing distinct roles in each.

Success requires leaders who engage the head, heart, and hands of transformation.

- **Leaders clarify and navigate the way forward.** Leaders envision the future and revisit strategic priorities regularly, continuously providing guidance to their reports and unit heads and ensuring that priorities remain linked to purpose. They are action oriented, always aiming for swift decision making and encouraging these qualities throughout the leadership ranks. They instill clear accountabilities and ensure that people remain focused on what counts. They know their work is not done until they have created and communicated a compelling case for change internally and externally.
- **Leaders are inspiring, empowering, and inclusive.** Leaders help their people become more confident and courageous; through their own behavior, they motivate and inspire teams to perform. They seek out opportunities to strengthen and encourage teams and support cross-organization collaboration. Mindful of the wearying effect of constant change, leaders demonstrate care and empathy and show their people that they have their backs. They also engage with people, actively listening and communicating with candor. Finally, but not least, leaders understand the power of being inclusive and exercise it as a core leadership trait. (See the sidebar “Full Court Press on Inclusive Leadership.”)
- **Leaders delegate and enable agile teams.** Instead of following the traditional command-and-control approach, leaders

delegate responsibilities to autonomous agile teams charged with executing. To create an environment that enables people to do their best work—not just removing obstacles, but actively helping people execute and innovate with agility—leaders ensure all the necessary cross-functional resources are in place. Finally, leaders support the sourcing and development of much-needed capabilities, both human and digital.

By engaging in these roles, leaders are in fact embodying the head, heart, and hands approach to transformation: clarifying and navigating (the head), inspiring, empowering, and including (the heart), and delegating and enabling (the hands).

Beyond clarifying what behaviors are expected of leaders, organizations can take important steps to activate these roles. To help leaders incorporate them into their day-to-day actions, organizations can encourage leaders to introduce routines and rhythms that reflect these behaviors. For example, a North American financial institution undergoing a digital transformation rotated meeting leaders, which empowered a broader group of junior leaders throughout the transformation. Leadership coaching can also be an important investment during a transformation, for senior leaders as well as the extended leadership team. Symbolic acts, big or small, that embody the desired leadership characteristics can also help activate these skills quickly and visibly; for example, conducting board meetings in manufacturing facilities or including an empty chair in meetings to represent the customer. To further reinforce the desired behaviors, they can be hardwired into performance management and assessment and development systems and practices.

Although Microsoft’s Nadella characterizes his leadership approach in somewhat different terms (“bring clarity, generate energy, and deliver success”), his view reflects the model described here. He recast the company’s purpose. He and his team set a new strategic direction, clarified priorities, and invested in building capabilities. He made culture change a top priority. He is famously a good listener and believes in team leadership—

FULL COURT PRESS ON INCLUSIVE LEADERSHIP

In the world of NBA basketball, few teams experience the sort of meteoric rise enjoyed by San Francisco's Golden State Warriors, who in May 2018 nabbed the NBA Championship for the second straight year. Some observers credit the team's astonishing success to head and hands: developing a numbers strategy and recruiting and deploying players skilled at three-point shots. (One sportswriter noted that Stephen Curry making 402 three-pointers in the 2015-2016 regular season was the equivalent of a baseball player hitting more than 100 home runs in a single season.) Head and hands are clearly core to the team's success, but another critical factor explains the team's swift rise.

When Steve Kerr, himself a former NBA champion player, took over as head coach in 2014, he and the team owners had a clear game plan for the future, along with a keen eye for spotting talent and developing capabilities. But Kerr also quickly recognized that delivering on that plan and getting the best from the players would require them to work together, not as a team of champions, but as a champion

team. His approach involved instilling a team mentality (rather than the typical star-based one) among the starting five. But Kerr also cultivated this mentality among the full bench and the staff. This deliberate inclusiveness was eventually carried beyond the team and its organization to the Warriors' fan base; it is embodied in the team's mantra, Strength in Numbers.

In less than a year on the job, Kerr broke the NBA record for most regular season wins for a rookie coach. He was also the first rookie coach to win a championship in 33 years. More than a slogan, Strength in Numbers has become, in the words of one team executive, "a movement," propelling the Warriors to break the record for the most wins in an NBA season (2016) and win three out of four national championships in as many years. More than 1 million fans lined the streets of Oakland to honor the "Dubs" at their 2018 victory parade in June—a clear indication that Strength in Numbers is the ultimate example of the power of inclusive leadership.

what he calls "shared context" —that includes open discussion and debate. Empathy, a quality Nadella says defines him personally, is something leaders should aspire to, along with the desire to empower others.

EMBRACING THE HEAD, HEART, AND HANDS OF TRANSFORMATION

IN THE DIGITAL ERA, transformation has become the default state for most organizations. But always-on transformation needn't be debilitating, exhausting, or demoralizing. We owe it to ourselves, our organizations, and society itself to boldly transform the approach we take to transformation.

Leaders need to move beyond short-term fixes to envision a compelling future, and focus on the big rocks required to get there. They need to stop treating people as a means to an end or, worse, as collateral damage, and

instead inspire and empower them. They need to change how work gets done, moving from the expedient and prescribed set of actions to an approach that enables execution and innovation to occur simultaneously, with agility.

The head, heart, and hands of transformation is not a panacea, but it is a holistic and human-centric approach that is proven to enable organizations that truly embrace it to succeed today and thrive tomorrow.

FOR FURTHER READING

The Boston Consulting Group has published many reports and articles on transformation, corporate purpose, and culture that may be of interest to senior executives. Recent examples include:

“For Corporate Purpose to Matter, You’ve Got to Measure It,” BCG article, August 2018

“It’s Not a Digital Transformation Without a Digital Culture,” BCG article, April 2018

The Transformations That Work—and Why, BCG Focus, November 2017

Purpose with the Power to Transform Your Organization, BCG Focus, May 2017

Transformation: Delivering and Sustaining Breakthrough Performance, BCG e-book, November 2016

Building Capabilities for Transformation That Lasts, BCG report, June 2016

A Leader’s Guide to “Always On” Transformation, BCG Focus, November 2015

The New CEO’s Guide to Transformation: Turning Ambition into Sustainable Results, BCG report, May 2015

NOTE TO THE READER

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