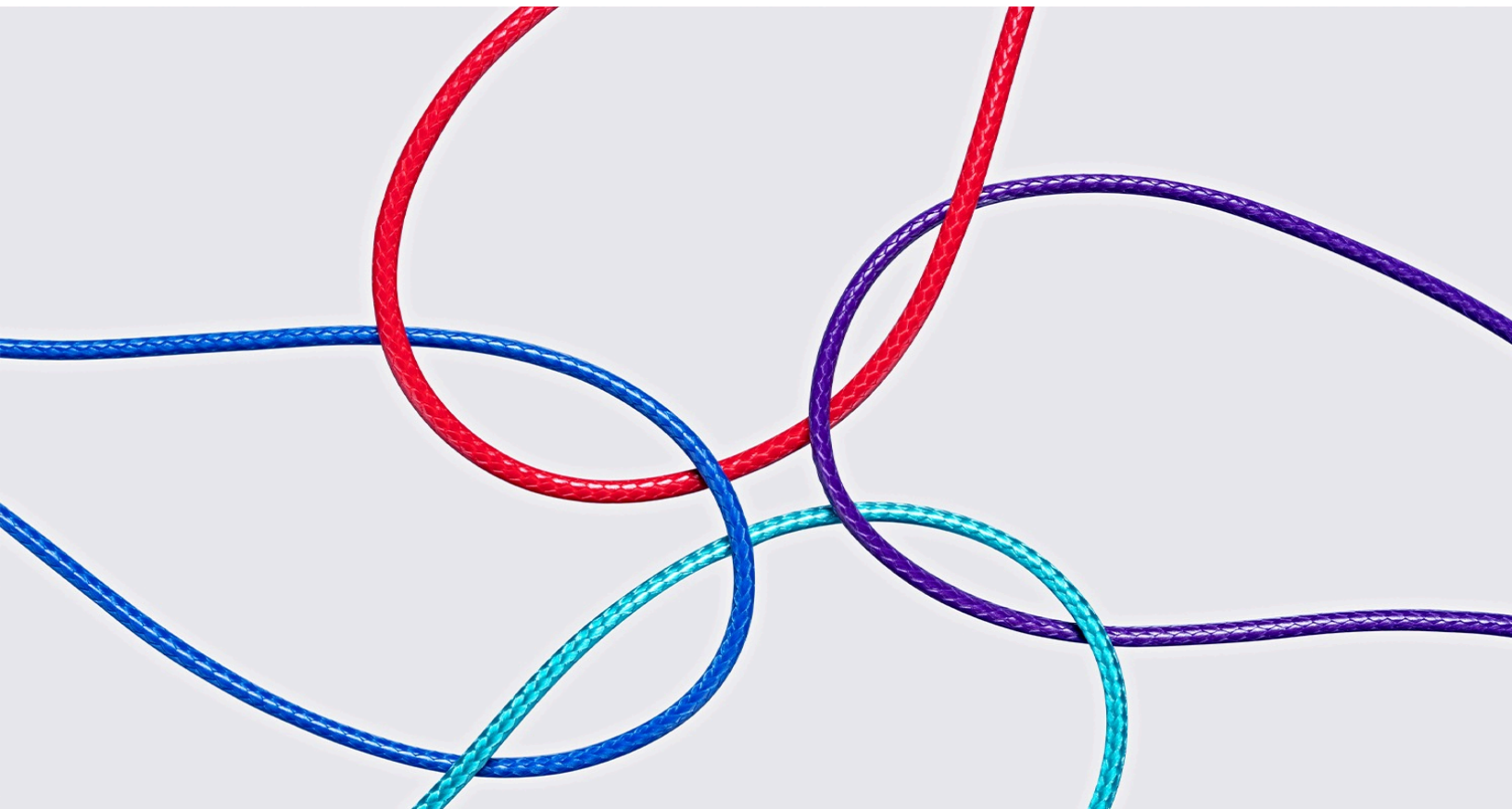


People & Organizational Performance Practice

All about teams: A new approach to organizational transformation

Teams are the catalysts that drive value and new behaviors—but not all are created equal. Four actions help build a system of healthy teams to spur lasting change.

This article is a collaborative effort by Arne Gast, Erik Mandersloot, Kai Grunewald, and Neil Pearce, with Carmen James and Natacha Catalino, representing views from McKinsey's People & Organizational Performance Practice.



In today's business landscape, organizations face unprecedented levels of change and complexity. Markets shift overnight, new technologies emerge daily, and customer expectations evolve rapidly. This volatile environment demands that organizations adapt quickly, innovate continuously, and [respond decisively to new challenges](#) and opportunities.

Companies aiming for significant performance improvements may have tried top-down or bottom-up approaches to transformation—either relying on senior management alone or on programs that seek to change employee mindsets.

But there is a third way. Our recent experience with organizations across industries and geographies reveals that a team-centric approach to transformation ushers in lasting, significant gains. In fact, team-focused transformations can lead to 30 percent efficiency gains in organizations that implement these strategies effectively, [McKinsey research shows](#). This is especially true when teams with cross-functional skills come together to achieve difficult outcomes.

Most employees know what it's like to be part of a vibrant team that works toward a common goal. They feel a [strong sense of belonging](#), viewing their team as a place where they can try new ways of working, learn and grow together, and [give and receive constructive feedback](#). These are all important elements of a learning environment for employees, in which transformation of performance individually and collectively also benefits the overall organization.

However, not all teams are created equal. Those that have the potential to notch better performance require several operational elements to be in place, as well as the backing of the broader organization. In this article, we discuss four actions leaders can take to build a network of effective teams, based on case studies of organizations that have made this approach the engine of their transformations.

Four practical steps to team empowerment

Transforming large, complex systems requires a unit-by-unit strategy, in which each leadership team develops its own change process aligned with the organization's overall strategy and values. Teams must have honest conversations about their performance barriers and determine what it will take to overcome them. Once this accountability benchmark is established, unit leaders can propel change effectively, fostering high performance and commitment within their specific contexts.

With operational agility at the team level in place, leaders can take four actions to unleash team potential: identify the highest-value teams, activate the teams, lift leaders so they can support their teams, and scale this approach.

Identify the highest-value teams

Leaders know they can't wave a magic wand and change an organization overnight. Transforming companies through teams requires identifying those that can deliver the greatest business value aligned with the transformation agenda. Some will increase revenue over the short term, while others will take five or more years to realize their revenue potential. But all are tied to the organization's identity and [purpose, or why it exists](#).

For example, a pharmaceutical company faced a drop in revenue as several of its bestselling medicines reached loss of exclusivity. Its approach to team prioritization was to look at its future pipeline and identify a handful of its 40 product teams that had the highest chance of yielding either revenue or successful development milestones in the next two to three years. It then began to focus on those teams by guiding them through a facilitated team journey.

Depending on the scale of transformation, this approach can lead to the prioritization of the top five, 20, or even 100 teams to focus on during the first phase of the change effort. But it's important to note that the teams most critical to creating future value may not exist yet; they must be created to address a real business need. These teams are highly likely to be cross-functional in nature, with a specific customer group or product at their center. Identifying these highest-value teams requires leaders to think through all the dimensions and candidates with an open mind.

A leading Asian bank embarked on a transformation using this approach of identifying and prioritizing high-value teams. Its goal was to create a horizontal organization with teams capable of rapid adaptation and innovation. The bank's hierarchical culture, silo mentality, and lack of [psychological safety](#) were preventing this ambition from being realized.

The bank chose its 50 most critical teams, including the group executive committee, certain country leadership teams, functional leadership teams, and some high-priority cross-functional teams. These teams were supported by facilitators, which we explain in more detail below.

By focusing initially on these teams, the bank made early progress in shifting its culture toward greater agility and innovation. The results showed impressive improvements in employee engagement scores, particularly in the technology and operations division. One platform team doubled its productivity and another team implemented a more effective governance model. After starting with 50 teams, the bank added subsequent teams in waves, including some with high-impact potential that had previously been overlooked or underresourced.

Activate the teams

[Activating value-creating teams](#) requires empowering them with a clear mandate, aligning them around clear outcomes, agreeing on how to execute together, and instilling practices for learning and feedback.

A powerful example of this practical approach comes from a global life sciences company. Its leaders were concerned by how much activity in the organization was not directly adding value, and by how much internal bureaucracy was slowing teams down and leading to pain points for its customers.

Teams were given expanded powers to set their own direction and make their own decisions. This alignment and empowerment started by immersing each intact team in a two-day session that brought together a broader range of critical stakeholders and collaborators than officially belonged to the team. The invitation was extended to any colleague who had the potential to influence team results.

After the “who we involve” question was settled, the teams moved on to the “why” of the transformation. Often, transformation happens *to* people—but when teams uncover their own compelling reason for change, they feel greater ownership and commitment than if change was imposed solely from above.

Next, teams clarified the value they could create for which stakeholders. Teams should be aligned around desired short-, medium-, and long-term outcomes, with measurable results, and each member should understand how their daily activities contribute to value for the team. This exercise led to novel results. Core team members, who had not previously questioned their daily activities, began to ask whether those pursuits created value. In response, certain activities were dropped to free up people and get them focused on more value-added endeavors.

Meanwhile, the shift to engaging a broader set of stakeholders allowed some colleagues on the team periphery (those in supporting functions, with time split across several product teams) to understand team goals and prioritize requests better. For example, when the team needed a review from legal ASAP, its legal colleagues already understood the broader context and could ensure prioritization of the request.

This shared understanding augmented levels of trust and accelerated collaboration (exhibit). The outcomes-based approach also created a higher team metabolism, with experimentation, rapid learning, and innovation becoming a core mindset. Retrospectives were held every 30 or 90 days, depending on the team’s mission, and focused on core questions: What outcomes have we achieved? What has worked, what hasn’t, and what have we learned? What experiments should we run in the next cycle?

Part of empowering teams is making sure they have [high levels of psychological safety](#). This is an environment where people can experiment freely, give candid feedback, and address conflicts openly, without fear of negative repercussions. To empower its teams, the Asian bank spent significant time fostering a growth mindset and psychological safety. The bank introduced a check-in practice, so employees recognized that their individual performance was a big factor in team performance.

Transformation requires collaboration within and across teams throughout the organization.

Ecosystem

Enterprise

Enterprise leadership team

Other unit leadership teams

Enterprise design teams

Unit

Unit leadership team

Unit intact/operating teams

Unit design teams

Current external customer and partner organizations

New external customer and partner organizations

Engage and collaborate on portfolio of activity to enhance today's business

Engage and collaborate on portfolio of activity to cocreate tomorrow's business

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This new approach used team members' diverse skills beyond the definition of their role or function. Teams discovered that when they limited themselves to their tightly defined role, as per their job description, they were not bringing all their abilities to the table. Members shifted

from a mindset of “this is my part” to “we’re all in this together.” With more collaboration came the opportunity for people to learn outside their jobs and experience other functions. By learning new skills, team members reported feeling more energized.

Three years after the start of the transformation, 85 percent of employees fully supported the transformation and 75 percent said they experienced the new behaviors daily. More broadly, the company made significant strides in competing to enable low-carbon activities in the energy sector.

Activating and empowering teams requires the right configuration (ensuring the right people are part of the team’s journey), spending significant up-front time on aligning around common goals, and addressing the quality of interactions within the team. McKinsey research shows that [employee support for transformation initiatives](#) is critical, with the highest total shareholder returns (TSR) occurring when up to 30 percent of employees are involved in key roles.

Lift the leaders to support their teams

Teams need leaders, and leaders’ behavior has the potential to make or break a team’s performance transformation. A core part of that is how leaders show up. Many behaviors that have served leaders well as they progress through the organization may not be the same skills they need to lead their teams through complex situations.

McKinsey research shows that change leaders should move beyond their traditional skills to those that inspire purpose, set medium-term strategy and long-term vision, and help remove obstacles—all while [showing up as their authentic selves](#).

How do all these leadership attributes relate to a team-centric approach? At the global life sciences company that wanted its operating model to be more responsive to customers, leaders had to practice these new, challenging behaviors. Teams made the decisions and leaders became guides rather than directors. Leaders set strategic visions with their teams while at the same time enlarging their spans of control, so that they could operate more efficiently and effectively. They also received training and support to become vision setters and coaches (over the first 12 months, the company trained 6,000 leaders).

As more teams get involved, the transformation can reach a tipping point where the overall performance improvements of the system are greater than each individual team’s increase.

Part of being a vision setter and coach involved sponsoring customer-centric teams focused on critical outcomes. As sponsors, leaders challenged teams to work more quickly and addressed fears that the new teams-based approach would not work. They also helped remove obstacles for teams engaging with stakeholders in other functions. In one case, a team was experiencing pushback from senior leaders in a different function, and its leader was able to have a peer-to-peer conversation that removed the blockage.

In a fast-moving transformation where hundreds of teams are trying new ways of working, senior leaders can act as connectors, replicating positive changes in other areas. Leaders also [can communicate successes](#) to boost energy and combat change fatigue. When one life sciences team cut the time needed for regulatory submission in half, its leader radiated that success to senior leaders and across the organization. Other therapeutic areas going through similar regulatory approval processes learned from this team's approach and replicated it.

Embracing a growth mindset is crucial for leaders in this context. They can put themselves into uncomfortable and unfamiliar situations, then [model vulnerability](#) when asking their teams for feedback. We often recommend that [a coach joins leaders on their journey](#) of identifying and shifting some of their deeply held mindsets about authority, scarcity, and certainty.

This is a big to-do list for leaders who may not be accustomed to tapping their inner flexibility. However, we've seen it done successfully at organizations where transformation requires [new ways of leading](#).

Scale this approach to more and more teams

To spur transformation at scale, new ways of working must extend beyond the highest-priority teams to all value-creating teams.

It's important to think through several steps. These include how to move from the first round of prioritized teams to the next group, how to identify those new teams, and how to expand the pool of team coaches to support the larger group. Finally, widening this scope means figuring out how to measure and spread the story of success so that enthusiasm grows for new ways of working.

The global oil and gas services and equipment company expanded beyond its initial teams by creating a network of "culture transformation change agents." Initially there were about 30 change agents for the first teams, a number that expanded to more than 150 after two years. These agents carried new ways of working to all parts of the organization. They brought new mindsets and behavioral practices to the next layer of teams while also helping teams to identify new initiatives within the goals of the transformation.

The change agents were themselves organized as a body across functions and businesses, with an important role in bringing cross-organizational teams together. They also gathered and shared stories of team actions that were bringing new business successes.

The global life sciences company mentioned above scaled its approach by bringing in teams that interacted regularly with the first phase of teams. For example, a product team that changed how it was working regularly interacted with manufacturing and product supply teams that operated in slower, more traditional ways. The product team initially felt frustrated, but as the transformation quickly expanded to include those teams, the friction points were reduced and the new ways of working spread.

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Having a sufficient number of team coaches to support this journey is critical. Training coaches through a “see one, do one, teach one” model, along with specific “train the trainer” sessions, takes time. Organizations often enlist both specialized team coaches (internally or externally) and leaders to champion the transformation rollout.

To quickly scale up, trainers and team leaders can model a few key practices, including check-ins or providing rigorous feedback to create a collaborative environment and boost productivity. Decision-making practices also must be clear. Coaches can identify who owns a topic, what proposals are being considered, and what objections need to be resolved.

At the global life sciences company, a team dealing with complex strategic choices found that a clear decision-making process allowed for more meaningful conversations about important issues. The company also found that success stories were vital for accelerating transformation, for example, by sharing how better decision making led to the faster market launch of a new product. Senior leaders can radiate these successes through various channels (such as town halls, blogs, and meetings) to show the organization’s commitment and excitement for the transformation.

In addition, leaders can measure impact by tracking metrics before and after the team-based approach begins. Tools include biweekly team barometers to check on alignment, mood, and working hours, as well as monitoring trust and teamwork levels among teams.

Finally, to operationalize agility at the team level, the organization must evolve at a systemic level to respond to business needs. When the organization offers a clear shared purpose and direction, teams can be formed, disbanded, and reformed quickly, allowing the system to self-organize to address new priorities and respond to a changing business environment. Stability and flexibility are both core elements of this approach.

Teams are often underappreciated as the engine of organizational transformation. When organizations invest in developing high-performing teams, they create lasting change that ripples throughout the enterprise. The company examples shared here demonstrate how focusing on teams can create breakthrough performance, foster innovation, and build organizational resilience. For leaders ready to transform their organizations, the path forward begins with the collective potential of their teams.

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