

Organizational Change

The Secret Behind Successful Corporate Transformations

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Summary. There have been surprisingly few studies that set out to quantify what makes for a successful corporate transformation. Using a meta-analysis that crunched data on financial performance as well as corporate reputation, the authors examined 128 global... [more](#)

Successful enterprise transformation has long been considered the holy grail of the corporate world — continually sought after, but difficult to grasp. More than 25 years ago, John Kotter

highlighted the challenge when he made his now-famous assertion that 70% of corporate transformation efforts are doomed to fail.

Is Kotter's number accurate? And what makes a successful transformation? There have been surprisingly few studies that set out to answer these questions in a quantitative way. So last fall, our three organizations, Copperfield Advisory (Copperfield), Insider, and Revolution Insights Group (RIG) came together as a team to determine what puts some companies on the path to success.

Using a meta-analysis that crunched data on financial performance as well as corporate reputation, we found that:

1. **Transformation is even harder than we thought.** Only 22% of companies in our analysis successfully transformed themselves. A 78% failure rate, compared with Kotter's asserted 70%, quantifiably affirms how tough it is to transform an organization.
2. **How companies engage their employees can be the difference between success and failure.** Our findings revealed that companies that successfully transformed themselves shared a common focus on initiatives that prioritized employees, such as DE&I programs and support for women managers' careers, in addition to competitive pay and access to health care.

Defining Transformation — and Transformative Organizations

Transformation is perhaps one of the most used and abused buzzwords in business today. Thus, an important first step in our study was defining what constitutes a transformation. In consultation with a panel of 60 executives from global companies, we defined "transformation" as a fundamental shift in the way that an organization conducts business, resulting in economic or social impact.

To find companies that fit this description, we identified a range of quantitative indicators that would signal that a company had experienced or was in the midst of a transformation. These included: increased R&D spend, restructuring cost spend, change in operating margin, mergers and acquisitions, name changes, and public announcements of transformation efforts. Using RIG's database, which includes information on 350 companies, we assembled a list of 128 global companies that had undergone transformation between 2016 and 2020.

At the outset of our research, we reviewed the existing literature on this topic. Surprisingly, we found that only one study — a 2018 report by Martin Reeves (et al.) of the Boston Consulting Group — had performed a quantitative evaluation of corporate transformation. That research focused on financial metrics — that is, total shareholder return — of more than 300 companies, and ultimately found that transforming successfully was most challenging for companies that faced deteriorating market performance.

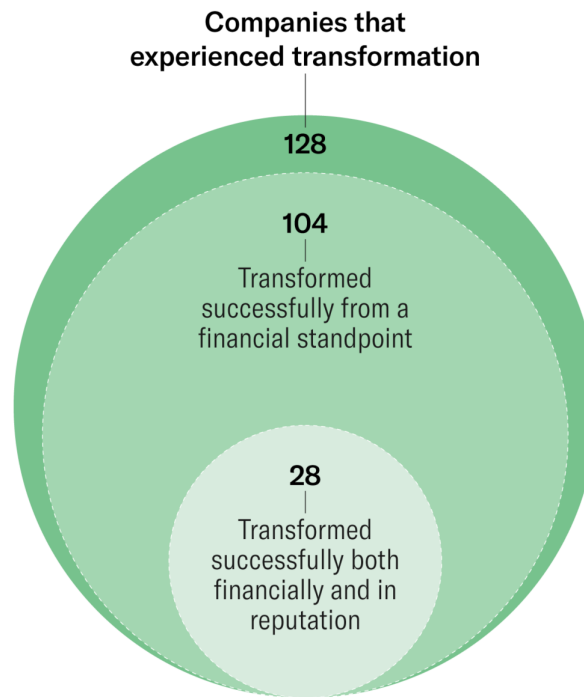
Our study also assessed financial performance — based on revenue, stock price, and market value. But in addition, we added positive reputation as a criterion for success, using it as a proxy for evaluating the extent to which companies brought *all* of their stakeholders (not just shareholders) along on their transformation journeys. For this component, we used RIG's proprietary meta-equity score, which aggregates metrics from the most used and trusted rankings, including RepTrak, BrandZ, Barron's, Harris's Reputation Quotient, and Fortune's Most Admired. Through statistical analysis, we ranked the companies according to their financial and reputational performances.

What Successful Transformations Have in Common

Our assessment found that only 28 of the 128 companies we examined (i.e., 22%) successfully transformed from both a financial and reputational perspective.

Corporate Transformation Is Harder Than We Think

Researchers identified 128 companies that underwent some degree of transformation between 2016 and 2020. But only 28 achieved both financial transformation (as measured by revenue, stock price, and market value) and reputational transformation, indicating that they brought all of their stakeholders — not just shareholders — on the journey.



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Our next step was to take a closer look at these 28 organizations to identify the attributes that set them apart from the rest. Here we took inspiration from perhaps a surprising source — evolutionary biology. (See sidebar.)

Borrowing from Evolutionary Biology to Identify Traits of Successful Businesses

Charles Darwin revolutionized the study of biology when he showed that variation in competitive ability drives ...



In looking at the 128 companies that had undergone transformations, we identified 66 corporate attributes measuring everything from innovation and energy efficiency to customer guarantees and market depth — giving us a snapshot of how each organization dealt with customers, employees, shareholders, and its own environmental impact.

But when we looked more closely at the 28 most successful transformers, we identified six attributes — most of which are related to employee compensation and DE&I — that set them apart from the rest of the pack:

- **Employee Pay:** These employees were compensated more highly compared to those at companies of a similar size.
- **Employee Stock Options:** Employees at these companies receive more stock options compared to those at companies of a similar size.
- **Employee Satisfaction:** Employees at these companies report higher satisfaction at work.
- **Diversity and Inclusivity:** These companies employ hiring practices with an eye toward equity.
- **Women Managers:** These companies employ more women in managerial positions
- **Women Employees:** Women make up a higher share of employees at these companies.

We spoke to executives at three of the successful transformers to understand their keys to achieving both reputational and financial success.

Microsoft: Unifying Employees around an Inclusive Vision

Microsoft is one of the best-known examples of corporate transformation in recent years, moving from a software company to a cloud-services company and gaining \$1.5 trillion in market capitalization. A core element of its overall restructuring and strategic shift was an overhaul of the company's vision, which in turn affected all aspects of the employee experience, from team dynamics to compensation.

In 2014, when the company began its transformation initiative, it also set out to change its corporate culture, which had previously been characterized by individualism, competitiveness, and a “know it all” attitude among employees. CEO Satya Nadella and other executives partnered with HR leaders to craft a refreshed mission and vision that better reflected the ideals of empathy, humanity, understanding of cultural differences, and Microsoft's place in the world. The result was a mission that shifted from a product focus to a more inclusive, people focus — an aim to “empower every person and organization on the planet to achieve more.”

Rolling out this people-centric mission meant a lot of repetition and reinforcement. The new language was printed on office items, like company badges and coffee cups, and discussed at town hall meetings and smaller team gatherings. Compensation schemes were also revised to account for — and incentivize — teamwork and collaboration. While Microsoft's cultural transformation remains ongoing, the company tracks its success via an annual employee poll, which consistently receives an 85% response rate across the organization. It saw an uptick in results related to how employees feel about the company culture one year after the new mission was introduced. Microsoft's commitment to a growth mindset, using technology to put people first, and to leading with empathy and respect, have led to an

engaged workforce where 95% of employees feel proud to work at Microsoft and 92% of employees would recommend Microsoft as a great place to work. The company also saw a 14% stock increase in that first year following the mission's roll out, between 2014 and 2015.

PayPal: Strengthening Employee Financial Wellness

Another one of the biggest transformation stories of the past decade belongs to PayPal. Following its separation from eBay Inc. in 2015, the payments platform used the moment to re-evaluate its mission, vision, and values as an independent company. In the ensuing years, PayPal has seen demand for its services soar, with its customer base climbing from about 160 million to more than 400 million, and its market cap increasing by more than 600%, to \$320+ billion in August 2021.

To fulfill their goals of improving the financial health of customers and communities around the world, company leaders recognized that they also needed to support the financial wellness of their nearly 30,000 employees.

In 2019, after reviewing a survey of hourly and entry-level employees that showed a significant portion of its staff was experiencing financial insecurity despite being paid at or above market rates, PayPal launched a comprehensive and multi-pronged employee financial health program. "If the market is not working, companies need to step up and do more for their employees," said Franz Paasche, senior vice president and chief corporate affairs officer at PayPal. "And that's part of serving your shareholders and serving your stakeholders."

The company developed a measurement approach — Net Disposable Income (NDI) — to estimate employees' financial health and track progress. At the outset, the PayPal-defined NDI for some U.S.-based hourly and entry-level employees was as low as 4–6%.

To improve this, PayPal granted every employee company stock and offered a financial planning system and tools to help employees manage their assets effectively. It also reduced the cost of health care by around 60% for a third of its employees in the U.S. and adjusted salaries where appropriate. As part of the company's ongoing commitment to employee financial wellness, PayPal partnered with Even, a company that allows employees to access their wages as they earn them.

Since the rollout of the initiative, the company has helped lift the minimum PayPal-defined NDI for hourly and entry-level U.S. employees to at least 18%, making significant progress toward the company's goal of at least 20% for all employees globally.

The organization's holistic approach to invest in and improve employee financial health hasn't only made a difference on the balance sheet: The effort has also contributed to high employee satisfaction, resilience and retention, and earned PayPal positions on rankings like Glassdoor's Best Places to Work, and in the top three of Fortune's Change the World list.

Hershey: Leading Through DEI

When Michele Buck took the helm as Hershey's CEO in 2017 — the first woman in the company's then 123-year history to do so — she and other leaders at the organization saw an opportunity to diversify the company's snack portfolio and to advance its approach to diversity and inclusion. Over the past four years, the company's market cap has grown by about \$14 billion, to just over \$36 billion today.

At the same time, Hershey also achieved pay equity within its U.S. workforce, leading its industry in paying women and people of color the same salaries as their white male colleagues in similar positions, part of a talent strategy with strong succession planning and professional development. Hershey also transformed its board of advisors, which five years ago, hovered around the 35% mark for board diversity, and is now at 58%.

“We’ve taken steps to accelerate our DEI strategy with a particular focus on women and people of color,” explained Hershey’s Chief Diversity Officer Alicia Petross. “First, we’ve paused and listened to others, including employees, the market, and the communities in which we live. We’ve also set the tone at the top of the organization with our board of directors and senior leadership. We recognize that while we’ve made progress, there is still more work to do.”

People Are the Catalysts of Successful Transformation

The implications of our findings are clear: Companies have a better chance at success if they focus on their people during transformation.

What’s more, the *type* of employee engagement made the difference between top-tier performance and not. Companies that prioritized attributes that are fundamentally related to employee engagement, such as diversity & inclusion, in addition to traditional benefits, such as compensation or health care, saw stronger reputations and greater financial returns than other organizations. The firms that listened with intention to their employees and matched their company engagement accordingly achieved transformational success.

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