BCG

Weekly Brief

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Five Truths (and One Lie) About Corporate Transformation

Taking on a transformation presents so many tough questions for CEOs and senior business leaders. When should they pursue it? With what goals? How should they scope and shape it? Who should run it? Getting the answers right can be among the biggest challenges leaders will face—and can be career defining.

Roughly one-third of companies in any given year must undergo substantial transformation, often catalyzed by financial underperformance. Despite how routine this need is, successful change is the exception. In fact, of the companies needing to change, only 25% do so successfully, achieving above-industry average total shareholder return (TSR) in both the short and longer term.

Given that, we need to understand what can tilt the odds toward a positive outcome. The BCG Henderson Institute and the BCG Transform practice collaborated to seek out patterns that could analytically tell us what works. We assessed nearly 2,000 firms over two decades, and what emerged are five truths about successful change:

1. **Timing matters.** Preemptive transformation programs, initiated while TSR is in line with or ahead of industry average, created TSR that was 2.7 percentage points higher after three years than programs initiated reactively, once returns had dipped below peer groups.

By fixing things before they break, companies can act from a position of strength, when they are less subject to pressure and scrutiny. NVIDIA offers a great example. The company began embracing chip design for AI-related tasks while its gaming business was still growing—a bet now validated by its dominance of the AI industry.

2. **Leaders matter.** One of the roadblocks to successful transformation occurs when leaders are reluctant to question the mental models and organizational structures underpinning past success. Think of cases like Blockbuster (deciding against the acquisition of Netflix), Swissair (continuing to invest in a failing airline), and Kodak (not recognizing the potential of digital photography).

Bringing in a new CEO during a transformation is associated with 4.1 p.p. higher TSR, on average, over five years. But leadership change is also associated with high variances in TSR impact, so it is anything but a panacea. Indeed, we observed that leaders who initiated preemptive change are significantly less likely to be replaced during the transformation. So what counts is the willingness of the leader to challenge the status quo and established operating models.

3. **Cost cutting is rarely enough.** Over a five-year horizon, long-term outperformance over industry peers is driven by investor expectations (25%), cost reductions (32%), *and* revenue growth (43%).

You can't just cut your way to greatness. Differential growth and a compelling narrative for investors are critical to sustained value creation.

4. **A long-term outlook is key.** While it's easy to get caught up in how to manage performance woes, successful transformations require a forward-looking perspective reflected in metrics, mindset, and culture.

This outlook should also include investment in new ideas. R&D spending that's above industry average is associated with a 2.9 p.p. improvement in TSR over the course of a transformation. Above industry-average capital expenditures are also linked to better outcomes—3.7 p.p. TSR over five years. Often the most essential part of cost cutting and productivity improvements in a transformation is finding the fuel to fund this journey.

5. **You can't make it up as you go.** Leaders of companies undergoing transformation feel lots of pressure—from inside and outside—and they need to deliver on multiple fronts at the same time. It takes a structured program to support change.

Clear governance and processes—and potentially a dedicated transformation office—allow companies to coordinate and track progress. And appointing a chief transformation officer can improve the odds of success by an amazing 80%.

On top of these five truths, there's also one lie leaders often tell themselves: **that these insights don't apply to them.** In fact, the patterns and success drivers identified by our research are remarkably universal across industries, regions, and time. The exceptions to these truths are truly rare.

Many of the points above are broadly understood, but often obscured by the pressures and distractions of the moment. And the success factors associated with these five truths turn out to build cumulative wins. Employing two may increase TSR by 12.7 p.p. over five years; employing four adds 20 p.p, or nearly 4 points of TSR per year. When it comes to transformation, the best approach calls for nothing but the truth.

Until next time,

Rich

Rich Lesser
Global Chair

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