Understanding the Transformation Journey

By Gokhan Guley

In a world defined by constant change, there comes a time when the pace or the amount of change is so dramatic, incremental improvements can no longer ensure success. At those times, transformation is the only way out.

Research shows that 85 percent of organizations have undertaken a transformation effort during the past five years, and 52 percent of large companies are undergoing transformations at any given time.

But what *is* transformation? And does it really deliver results?

Transformation is defined as a deliberate journey associated with profound and radical change. It positions an organization (or person) to move in an entirely different direction and provides a new level of effectiveness to achieve breakthrough results. Transformation is not incremental. It is comprehensive, and it runs deep.

In 2017, a panel of judges from prestigious business schools and respected corporations evaluated a list of 500 large global companies to find the most successful corporate transformation. They were searching for transformations that produced new growth, delivered a dramatic change from the legacy business, had the highest impact in their industries, and were durable.

The 10 finalists for successful corporate transformations included Apple, Adobe, and Aetna. Amazon and Netflix topped the list, and while disrupting their respective industries, they had also outperformed the stock indices by up to six times in compound annual growth rate, proving that the rewards of a successful transformation can be outstanding.

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Despite the stellar rewards at the end of the tunnel, we all know the transformation journey is not easy. Transformation not only takes a long time and requires great effort, but it also is emotional and uncomfortable. Kicking off a transformation requires vision, courage, and conviction. Executing successful transformations takes commitment, competence, and discipline over a long period.

Success has eluded many organizations despite the massive effort and money invested in technology and expertise. Multiple sources suggest that as many as *70 percent of transformations fail to achieve their business case.*

History is littered with cautionary tales.

- GE, Ford, and P&G lost CEOs over the cost of, and poor returns on, "digital transformations."
- Burberry and Lego abandoned efforts and demoted CEOs.
- Nike kicked off its "first" digital transformation by launching a "digital sport division" in 2010. By 2014, the division's workforce was cut by 70 percent amid poor margins and the inability to monetize the data generated. Nike launched the "second" digital offensive in 2017, this time as part of a massive organizational effort.

So, what is the missing piece of the puzzle for so many organizations?

It is hard to discuss a topic as complex as a transformation without breaking it down to simpler components and conducting a deep-dive analysis. We boiled down a large number of corporate transformations into a framework that makes the process easier to understand and provides context for a conversation about how it works.

The first step in grasping transformation involves answering one question: "Why?"

A sincere discussion around why an organization needs to transform helps an executive team better articulate the vision and plan how to make it successful. Our research helps break down the discussion around the "why" even further into two components:

- The **intent** behind the transformation.
- The **primary value** expected, i.e., the driver of the transformation.

From the intent perspective, our research has pointed to four types of transformation journeys, as follows:

- **Disrupt:** The journey of a company that sets out with the intention to redefine and disrupt an industry.
- **Thrive:** The journey that starts with the intention to expand and grow within one's industry.
- **Survive:** The journey of many companies that are faced with major market forces such as regulation, new technology, and disruptive competitors.
- **Evolve:** A deliberate, long-term journey nurturing internal strengths and taking advantage of opportunities to lead the way to success.

Let me touch on each journey with the help of examples from corporations you will recognize.

Built to
Disrupt

NETFLIX AND APPLE

Netflix is the poster child for the disrupt journey. Netflix entered the home video rental market in 1997 with a vision to redefine and disrupt it. From the very start, Netflix focused on e-commerce and relied on a subscription model powered by a personalized video recommendation algorithm.

A journey that started with DVD rentals led to the introduction of video streaming in 2007, soon after Netflix had shipped its billionth DVD. Although the journey was not easy, along the way Netflix revolutionized the customer experience, highlighted by its business model to forgo late fees. Blockbuster, which could not get its board to drop the late fees, could not survive the disruption.

Another example of the disrupt journey is Apple. In 1997, at the brink of bankruptcy and fighting for its survival, the once-beloved computer company brought back its founder, Steve Jobs, to save the future of the enterprise.

With a bold vision for a revolutionary customer experience, Jobs launched a cultural reawakening and a breakthrough development effort to disrupt the computer industry. Apple reinvented its business model and launched a whole new customer experience fueled by an ecosystem of well-designed and connected products and services that made us realize that we somehow needed access to an unlimited amount of content where and when we wanted.

Hence came the birth of iTunes (2001), the iPod (2001), the iPhone (2007), and the iPad (2010). Apple's transformation has the hallmarks of disruptive intent: bold vision and strong leadership. Culture and disciplined execution capabilities made Apple's transformation a lasting success.

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Positioned to

Thrive

VF CORPORATION

The VF Corporation, a major apparel and footwear company out of Greensboro, North Carolina, is a great example for the thrive journey.

Well known for its Wrangler and Lee brand jeans, the VF Corporation had struggled through low margins and a lack of growth for years. Its focus on efficiency and success in cost cutting were the main reasons it stayed in business into the 21st century.

Finally, in 2002, realizing cost cutting alone would not be enough to keep up the company's valuation, senior leaders made a deliberate strategic decision to embark on a different journey to expand and grow the company.

Over the course of several years, VF strengthened its management bench, shifted its mindset from driving for efficiency to creating value, divested low-margin businesses, and entered higher-margin segments to serve lifestyle and outdoor wear customers through its acquisition of such brands as Timberland. In the 12 years following this transformation, the VF Corporation tripled revenues and quadrupled its share price, outpacing its competition.

Surviving
a Battle of Titans

WALMART

Despite the negative connotation of the word *survive*, it is the most common journey in business and a very respectable one. Over the last decade, Walmart has been surviving the new world defined by industry disruptor Amazon.

Since its founding in 1994, Amazon has redefined shopping and, as of 2015, surpassed Walmart as the most valuable retailer in the world.

However, Walmart, once a disruptor itself in the '80s and '90s through its supply chain prowess, has not been sitting quietly on its laurels, either. For the last decade, Walmart has been executing a massive cultural and digital transformation to stay competitive in an ever-changing online shopping world.

Considering its 43 percent year-over-year e-commerce sales growth reported in the first quarter of 2019, Walmart is successfully surviving—something Sears and Toys "R" Us could not do.

Evolving
through Reinvention

NOKIA

Nokia is a great example of the evolve journey.

While it started as a Finnish paper mill in 1865, Nokia never stopped looking for ways to expand its reach. By 1967, Nokia had branched out and become well known for cable manufacturing and rubber works. In 1992, Nokia produced its first cell phone.

During its long journey, Nokia evolved from being a paper mill to becoming the largest worldwide vendor of mobile phones, and the fifth most valuable brand in the world.

Over the last 15 years, Nokia has pulled off yet another pivot in its business. After selling its mobile phone division to Microsoft in 2014, Nokia focused on telecommunication infrastructure and by 2018 had become the third largest manufacturer of network equipment in the world.

NOKIA'S EVOLUTION

1865
PAPER MILL

1967
CABLE MANUFACTURING AND RUBBER WORKS

1992
CELL PHONES

2014
TELECOMMUNICATION INFRASTRUCTURE

Corporate history books are full of companies like Nokia that have embarked on an evolve journey.

- **Berkshire Hathaway**, the global investment powerhouse, was once a textile company.
- Once a collectible seashell shop, **Shell** turned itself into an oil giant upon building its first bulk oil tanker in 1897.
- **Avon** was born when a book salesman realized his female customers were more interested in the free perfume that came with the books he was selling than the books themselves.

If you think through these transformation journeys, you'll find that—in addition to the **intent** that kicked off the efforts—another dimension drove the journey: the **primary value** they sought in their vision.

- Netflix, Apple, and Amazon set out with a focus on customer experience.
- VF Corporation drove its transformations through a focus on operational excellence.
- Walmart added new capabilities through its digital transformation journey.
- Nokia was chasing new revenue streams.

But in every transformation, culture change played a significant role. Each organization leveraged one or more of the following methods to conduct these transformation efforts.

- Business model pivot
- Technology and digital push
- Mergers and acquisitions
- Corporate reengineering
- Innovation and product focus

"WHAT GOT YOU HERE WON'T GET YOU THERE."

Marshall Goldsmith

Although these were examples at the enterprise level, this framework applies to transformations at all levels of an organization and even individuals. With minor tweaks, the framework can foster discussion and planning for journeys such as agile transformation, digital transformation, merger integration, a business model update, and even a career transformation.

The next obvious question is: How did Netflix, Apple, Amazon, Walmart, and Nokia accomplish such impressive goals in their transformation journeys—while GE, Ford, Burberry, and many others failed?

While it is not possible for us to fairly dissect and evaluate each transformation, here is the hypothesis that drives our thinking on transformations: Obviously, no two organizations are the same, and their circumstances, capabilities, and goals differ as well. Therefore, no two transformation journeys can be defined and managed the same way. The success is achieved only when the mix and maturity of key enablers, execution capabilities, and cultural traits match the type of the transformation journey the organization seeks.

Only after the specific transformation is defined by clarifying the "why" and the "how" can the organization determine the appropriate approach and the right set of enablers that will deliver the specific results they seek.

As illustrated by the examples above, the transformation journey is defined by:

The Why

- The intent of the organization
  - *Disrupt*
  - *Thrive*
  - *Survive*
  - *Evolve*
- The primary value sought
  - *Capabilities*
  - *Operational excellence*
  - *Revenue streams*
  - *Customer experience*

The How

- Business model pivot
- Technology and digital focus
- Mergers and acquisitions
- Reengineering
- Innovation and product management strengths

If you intend to disrupt an industry by revolutionizing the customer experience, you want to make sure your vision is bold and clear. You must ensure that you possess the right mix of organizational capabilities—leadership, management, governance, corporate culture, etc.—at the right level of maturity to successfully help you through the journey.

In many cases, an organization that is perfectly suited to thrive in an industry may have a hard time disrupting it with the same mindset, culture, and leadership strengths. Conversely, the success of an industry disruptor may be short lived unless it develops the right capabilities to thrive in or survive through the regulations that follow.

As Marshall Goldsmith put it, "What got you here won't get you there." I would add: "One size does not fit all."

Here is a small sample of questions executives should contemplate prior to embarking on a transformation journey.

- Are you clear about why your organization needs to transform?
- Do you know the primary value you seek from the transformation?
- Can you envision the type of journey required to achieve your goals?
- Is your leadership team culture suited to that type of journey?
- Do you have the political and financial capital to fill the leadership gaps?
- Are your organizational capabilities mature enough to take you through that journey?
- Does your organization have the mindset to make it through the journey?
- Do you feel ready to disrupt your routines, your habits, and your comfort zone?

If you can say yes to each of these questions, you are in the minority. I salute you for your clarity and would love to learn from you. The value of these questions and the remainder of our survey is for the executives—and those in charge of transformation at any level—to have a hard conversation about the right approach and the unique success equation for themselves and their organizations.

Gokhan Guley
gokhan.guley@jabian.com